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The Outlook: Solid Growth

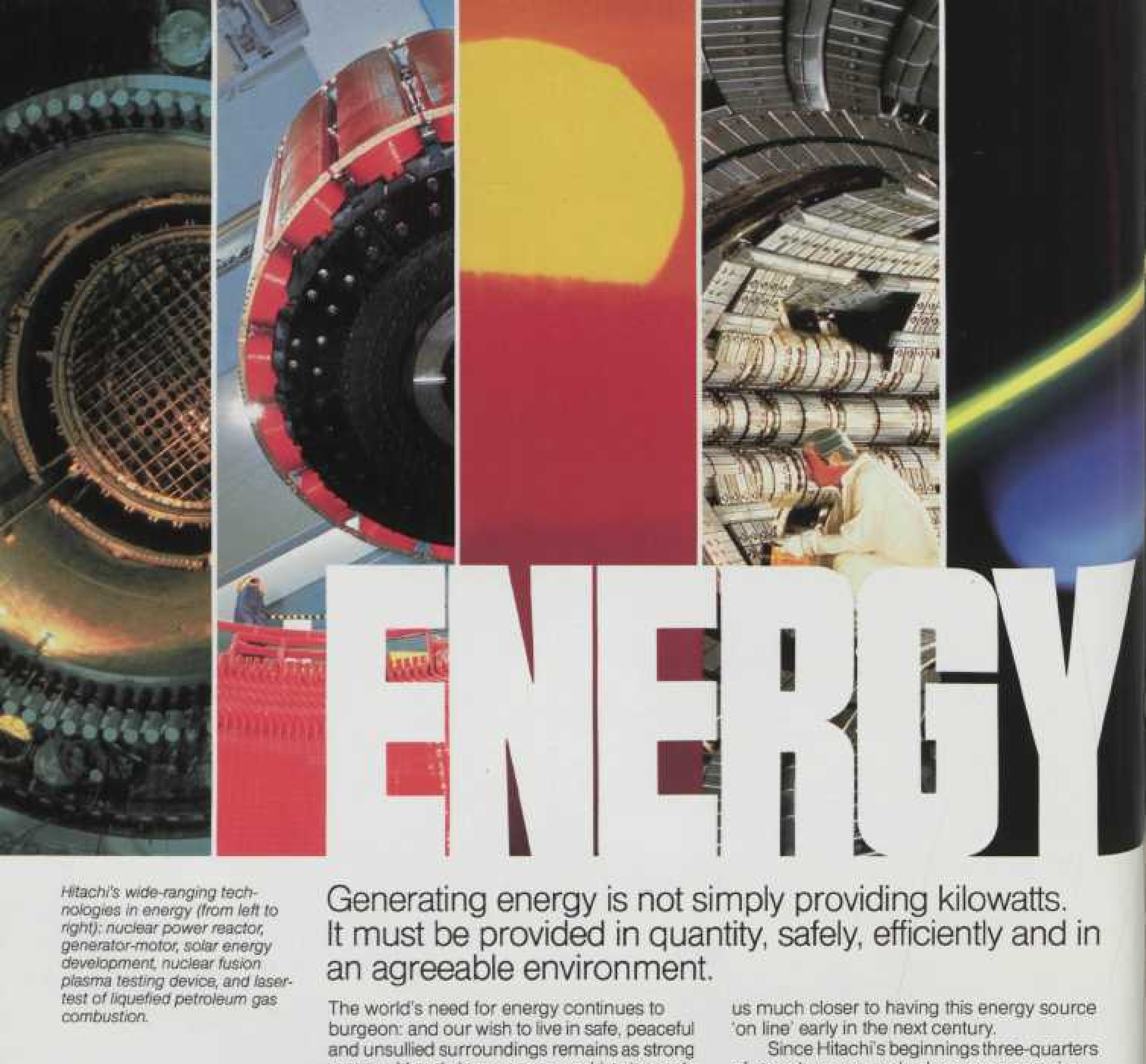
Changing Styles In Advertising

Threat Of Higher Benefits Costs

Nation's Business

When You're The Underdog

How Small Businesses Can Soar In The Face Of Competition


ENERGY

STREET FI

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Series	W4S042		W6R042		W7R042		W7R042HV	
Application	Truck		Truck		Truck		Truck	Tractor
Cab Type (BBC)	Tilt 67.9"		Tilt 76.2"		Tilt 76.2"		Tilt 76.2"	
Max. GVWR (lbs.)	11,000	13,250*	19,450*	22,000	27,500	29,700	33,000	–
Max. GCWR (lbs.)	–	–	–	–	–	–	–	60,000
Wheelbase (in.)	108.9-132.5-150.2		162-186		142-165-181-197		142-197	126
Front Axle (lbs.)	5290		7940		10,800		13,890	
Rear Axle (lbs.)								
–Single-Speed	11,020		16,980		20,280	–	–	
–Two-Speed	–	–	–	–	–	20,280	23,150	
Engine (Diesel)								
–Naturally Aspirated	3.9L-4 Cyl.	–	5.8L-6 Cyl.	–	–		–	
Net HP @ RPM	100 @ 3000	–	138 @ 3200	–	–		–	
Net Torque @ RPM	213 @ 1900	–	258 @ 1900	–	–		–	
–Turbocharged	3.9L-4 Cyl.	3.9L-4 Cyl.	–	5.8L-6 Cyl.	5.8L-6 Cyl.		8.4L-6 Cyl.	
Net HP @ RPM	116 @ 3000	116 @ 3000*	–	165 @ 3000 (A)	165 @ 3000 (A)		220 @ 2500 (B)	
Net Torque @ RPM	242 @ 1900	242 @ 1900	–	335 @ 1900	335 @ 1900		542 @ 1700	
Transmission								
–5-Spd. Direct	Std.	Std.	Std.	Std.	Std.		Std.	
–6-Spd. Direct	–	–	–	Avail.	Avail.		Avail.	
–4-Spd. Automatic	–	–	–	Avail.	Avail.		Avail.	
Frame Type	Ladder		Ladder		Ladder		Ladder	
–Section Modulus	5.3		13.2		16.8		19.7	17.1
Steering–Type	Integral Power		Integral Power		Integral Power		Integral Power	
–Ratio	21.9:1		18.8-16.1		18.8-16.1		22.4:1	
Brake System	Vacuum/Hydraulic		Air/Hydraulic		Air/Hydraulic		Full Air	
Fuel Tank (Cap.)	33-Gal.		52.8-Gal.		52.8-Gal.		52.8-Gal.	
Tires–Front (Std.)	8R17.5LT (10PR)		8.25-20/10PR	8.25-20/12PR	9.00-20/12PR	10.00-20/12PR	10.00-20/14PR	
–Rear (Std.)	8R17.5LT (10PR)		8.25-20/10PR	8.25-20/12PR	9.00-20/12PR	10.00-20/12PR	10.00-20/14PR	
Wheels	Disc; 6-Stud		Disc; 8-Stud		Disc; 10-Stud		Disc; 10-Stud	

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VOL. 75, NO. 7

Nation's Business®

Published by the U.S. Chamber of Commerce Washington, D.C.

MANAGING YOUR BUSINESS

Charles Curley, president of a distributor of packaging products, says that attention to quality service has been the key to his firm's success. (Page 16)

PHOTO: ROBERT HOLMGREN

Mandated employee health care scares Donna Reed (left). She opened a day care center last year in Waco, Tex. "We're regulated to death," she says. (Page 32)

PHOTO: STEVE EARLEY

Cover Design: Michael Bierut—Vignelli Associates
Illustration: Andrea Baruffi

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DEPARTMENTS

Former geophysicist Ted Beverley left government work in chilly Alaska and turned to selling ice in Washington—and his success has been red-hot. (Page 57)

PHOTO: T. MICHAEL KEZA

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COMMENTARY

Some Lessons Come Hard

By Henry Altman

Whether you are a golfer, bowler, racquetballer or whatever, specific games of years gone by never leave you.

I can't forget the round a friend and I leisurely played on a beautiful Prince George's County, Md., golf course. It was a sunny, mild Saturday afternoon, yet not one other person was playing.

To me, the fairways' emptiness—a once-in-a-lifetime occurrence for a suburban golfer normally harried by hordes of his fellows—was wonderful. Not so my friend. For him, that golf course contained the seeds of both wealth and poverty.

PHOTO: WALTER HINGS

"Don't deny yourself the chance to fail. You can't succeed without running the risk of failure."

Eddie Cook had gone into land development with $1,000, had multiplied his money 165 times in a matter of months and at the time of our game was, he says, within sight of $8 million.

Then he lost just about everything. But after heavy doses of self-doubt, which translated into the dry heaves at night and an eventual ulcer, he made it healthily back to wealth.

As in other cases of business failure and success, there are lessons here.

Let's start in the late '50s. Edward J. Cook had a secure job as a newspaper sportswriter, but he wanted a better life for himself and his family than $140 a week could buy.

How to get it? He read, he talked to people, and he found an opportunity: Gasoline companies then were eager to tap a burgeoning market in the Maryland suburbs of Washington. If you had a gas station site that had enough traffic potential, a company might build a station there, arrange 100 percent financing for you and lease it back from you.

Cook and a partner—a Navy Department engineer—scraped up $1,000 apiece and scoured the countryside in their off-hours. Finding a likely site—say, a farm acre at a busy road intersection—they would ask for an option to buy.

A few hundred dollars could tie down land worth several thousand, which the farmer would get after a deal was struck with the gasoline company. When the station was complete, Cook and his partner would sell it to some investor. Even a small slice of profit in the $80,000 that a station might go for in those days would be a huge profit on the price paid for the option.

Sweat-producing false starts were followed by profitable deals that culminated in a big one—sale of a site for a supermarket plus two gas stations. In little more than a year, Cook and his partner each had made $165,000.

While searching for gas station sites, they had discovered a retired Army colonel who lived in splendid isolation on 655 acres he had bought for perhaps $50 an acre after World War I. The land was along the Potomac River, close to Washington.

It was a country club site waiting to be discovered, thought Cook and his partner—a site for a golf course and marina, for luxurious homes and high-rise apartments. Could two youngish guys from the Navy Department and the *Washington Daily News* create all that?

Not in their off-hours. Cook had to quit his job. "I was scared to death," he says. "I had two kids by then. But I told myself: 'In a year, you've made 20 times what the job pays. Gamble.' "

He put aside some living money, the landholder agreed to sell out for $1,800 an acre with $175,000 down, there were bank loans, and what would become the Tantallon development was on its way. But everything took more time than expected.

"Nine months after we cut the land deal, we were still quarreling with the county about where to put the sewer line and what it would cost us. Without a sewer, it was tough to sell lots." So, when the golf course opened, it was often golferless; few lot purchases that brought country club memberships had been made.

Everything took more money, too. "In our planning, we pulled costs out of thin air. We had no idea of the real price of grading, say, or of curbing."

Trees, many of them hardwood, had to make way for roads and fairways. No one would buy any wood—or even come and get it free. Result: huge pyres burning 24 hours a day under the eyes of three shifts of county-required watchmen. A supply of tires, which burn unquenchably, was needed to keep the pyres afire in all weather. Cook says, "I drove as far as North Carolina to buy old tires."

Then came a crushing blow: Zoning for apartments was denied. And another blow: A lender demanded its money, NOW, but lot sales were still too slow. Cook got out with $15,000. His partner fought the lender and got nothing. Others created a community the two men had conceived.

"Those were tough times," Cook says. "I was a failure. Who would lend me money now? I thought of looking for a job. But I had learned things."

One thing was to plan tirelessly—"get good figures"—before buying land. Cook, armed with accurate cost forecasts, obtained a loan and got back on his feet in a home-building venture that netted him $100,000. Today, with other building deals also under his belt, he owns a mobile home park and is "rich in a little way."

A second lesson: "Don't deny yourself the chance to fail. You can't succeed without running the risk of failure."

The ex-sportswriter puts that another way: "The years of the greatest homerun hitters' greatest successes are also the years of their most strikeouts." NB

COMMENTARY

Letters

Changing Roles Of Women

Congratulations on your excellent cover feature, "Women: The Second Wave" [May]. The carefully researched article will be reassuring and inspirational to half the population, as women's roles in society continue to change, and women realize they can have "all of the above" by letting go of some things and trading off others.

We were particularly interested in the section entitled "Succeeding In Family Businesses." The two family businesses represented, Daffy's and Romanow Building Services, offer wonderful examples of daughters as successors.

Traditionally, successors in family businesses have been first-born sons. Unfortunately, there are still many father/founders who hold fast to this outdated concept. It is sometimes difficult, but not impossible, to overcome the "Daddy's little girl" syndrome.

Dan Bishop, President
Sharon Hayden, Chapter Director
National Family Business Association
Los Angeles

I am pleased to note the number of women on your staff. Nearly half of your major articles in May were written by women. Wonderful!

I do have one complaint, though. In all of your interviews with entrepreneurs, CEOs and movers-and-shakers, the *men* were never asked the question "How do *you* manage to combine a family with your careers?"

Jean E. Gaw
Middletown, Ohio

A Liberal Looks At The Minimum

I just finished reading your editorial against raising the minimum wage ["A Wage Debate With No Real Winners," April]. You state that we shouldn't worry about people paid minimum wage because most are "students working part time, young people entering the work force and family members seeking to supplement the income of the principal breadwinner." Then the commentary asks, "If a higher minimum means fewer jobs, why does it remain on the agenda of some liberals?"

Well, this liberal can answer that question: Today's minimum wage is totally unrealistic. Students working minimum wage jobs must ask for federal aid to meet their college and living costs (I mean enough money to have macaroni-and-cheese dinners five nights a week with just enough left over for a Coke).

Most people, young and old, who are working full time on minimum pay cannot meet expenses. Since people—especially those with dependents—cannot

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Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

pay for their fundamental needs on minimum wage incomes, they must rely on another source for help. The other source usually is the federal government. Yes, some jobs will be lost because of an increase, but an increased minimum wage would mean that those who do work can afford to live—*independently.*
Heather Davis
Springfield, Mo.

Bidding For Federal Contracts

In your May issue, there is a suggestion to D.H. of Sarasota, Fla., about ordering a kit designed to help potential federal contractors complete the forms for bidders' mailing lists, certifications and so forth ["Direct Line"].

The Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, has a free subject bibliography—Number 171, "How to Sell To Government Agencies"—that lists and describes publications for sale on the subject.

In addition, there are two federal document depository libraries in D.H.'s area that may have some of the publications listed: Charlotte County Library System, 18400 Murdock Circle, Port Charlotte, Fla. 33948, (813) 627-1156; and Selby Public Library, 1001 Boulevard of the Arts, Sarasota, Fla. 33577, (813) 366-7303.
Thomas K. Lindsey
Lubbock, Tex.

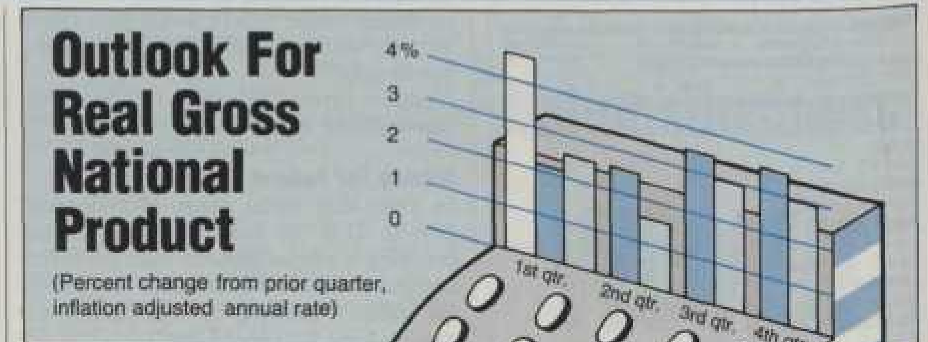
Return To Sender

The computer article in the April issue was interesting ["Computerizing With Confidence, Part 6"]. I was particularly intrigued by the sentence that read: "Say you wanted to hunt through a database to fetch a list of customers living in ZIP code area 12345." You would be in real trouble, since nobody lives in 12345. That's the ZIP code of the main plant of the General Electric Company in Schenectady, N.Y. Thousands work there, but nobody lives there.
Albert F. Kee
Schenectady, N.Y.

The Nation's Business

By Joan C. Szabo

Business Outlook



Slow Growth Ahead

Despite a stronger-than-expected first quarter, the U.S. economy will grow at a somewhat sluggish pace this year, say economic forecasters.

While the 4.4 percent surge in first quarter real GNP was the strongest quarterly growth in nearly three years, it was mostly the result of a buildup in auto inventories, rather than an increase in demand.

This bulge is expected to depress output growth for several months. "It means the second and third quarters will be weak. But by the fourth quarter we should see a bounce back," says Richard Rahn, vice president/chief economist of the U.S. Chamber of Commerce.

Tax reform is having a negative impact on the expansion, says Rahn, who notes that a sharp increase in many major taxes on business accompanied the cut in rates.

The reform, he said, "has resulted in a bigger [business] tax increase than was anticipated, so economic growth will be slower this year."

In addition, the prospects of higher inflation and rising interest rates due to a declining dollar could further slow an already limping economy.

Even so, many forecasters still expect modest growth this year and a somewhat stronger showing in 1988. They say the outlook after that is cloudy.

The probable real GNP growth figure for this year will be 2.5 percent, identical to the 1986 growth rate that was the worst since the recovery began in November, 1982. GNP growth next year will move up to 3 percent.

That is the consensus view of 51 financial analysts interviewed monthly by Blue Chip Financial Forecasts, a Sedona, Ariz., newsletter.

The U.S. Chamber of Commerce's forecasting division also expects a modest 2.5 percent rise in real GNP in 1987. It sees a greater pickup to 3.7 percent in 1988, assuming the final phase of the tax rate reduction goes into effect as scheduled.

Slightly more optimistic is the National Association of Business Economists, whose latest quarterly survey of 228 corporate, consulting and government economists forecasts a real GNP increase of 2.9 percent this year. They expect a similar increase next year but see an economic downturn beginning by the end of 1989.

Helping to sustain this year's growth, the NABE survey finds, is a gradual improvement in business capital spending, with a projected increase by the end of this year and a real gain that will average about 2.5 percent in 1988.

Also contributing to continued expansion, says Jerry L. Jordan, president of NABE and senior vice president/chief economist of First Interstate Bancorp in Los Angeles, "is a swing in the trade deficit, which will help bring about a pickup in production."

The U.S. trade balance for the year is likely to show its first improvement since 1980, when record deficits started.

The NABE projection is for a merchandise trade deficit of $155 billion this year and $135 billion in 1988, compared with the deficit of nearly $170 billion in 1986.

But not all economic analysts are convinced that a healthier trade outlook will generate sufficient economic growth this year.

Says David Hale, chief economist for Chicago-based Kemper Financial Services, Inc.: "While the trade deficit is declining, it is not falling rapidly enough to offset sustained weakness in domestic final demand. The economy still needs steady—if unspectacular—gains in domestic spending to achieve 3 percent real GNP growth."

Consumer spending slowed during the first three months of 1987, but not enough to halt the economy's forward movement.

The U.S. Chamber looks for consumer spending to begin to show some improvement, but the increase for the year as a whole is expected to be 2.1 percent, compared with a 4.1 percent rate of increase during 1986.

Another encouraging indicator for the economy, say forecasters, is the recent data on the employment front. The April civilian unemployment rate dropped from 6.6 percent to 6.3 percent, reflecting a 467,000 increase in civilian employment. The overall unemployment rate reached the lowest level in seven years. This signifies "a stronger economy coming into the second quarter than had been thought," says Allen Sinai, chief economist for Shearson Lehman Brothers.

But all projections for the year would

unravel, warns U.S. Chamber of Commerce President Richard Lesher, if certain policy blunders are made. At a recent luncheon for Washington journalists, Lesher outlined the major factors that could derail the U.S. recovery. They are: "the possibility of a tax increase, failure to deal with spending in a forthright way, a trade war or the perception of a trade war, and the improper management of the growth of the money supply." He added: "The belief by government officials that they can continue to tamper with the currency rates . . . could also be detrimental to the economy."

To avert the possibility of a recession that could extend throughout the world, the Chamber president said, "both business and government should insist that the other industrial countries begin to do more of their duty if they would like to see economic growth spread around the globe.

"It is not sufficient just to bash our trading partners and say, 'Open up your markets.' I think it is important that our trading partners begin to help America by buying the output of the less developed countries. The United States is doing far more than its share there." NB

Washington Roundup

Greenspan And The Fed

Economist Alan Greenspan is an excellent choice to replace Paul Volcker as Federal Reserve Board chairman, say a number of business leaders.

"The investment community was hoping that Volcker would stay on," says Ed Brown, president of Baltimore-based Brown Capital Management, Inc. "But Greenspan is a super choice."

Says Peter Flanigan, managing director of Dillon, Read, the New York investment banking firm: "Alan Greenspan is the only man who could replace Paul Volcker at this time."

Richard Rahn, vice president/chief economist of the U.S. Chamber, expects the Greenspan appointment to be good for economic growth. "He is more receptive to the supply-side agenda of holding down taxes and government spending."

Labor's Damaging Agenda

Rep. Steve Bartlett (R-Tex.) says the incremental cost of each proposal on labor's agenda would encourage business to locate overseas.

Labor's agenda is likely to cause further damage to America's competitiveness, warns Rep. Steve Bartlett (R-Tex.), a member of the House Education and Labor Committee, which has jurisdiction over many of the bills labor is pushing.

Among the measures on labor's agenda are mandated employee benefits, a higher minimum wage, advance notice of plant closings, notification of occupational health risks, a ban on the use of both union and nonunion shops by the same construction company, comparable worth and a ban on the use of polygraph (lie detector) tests by employers. The incremental cost of each proposal would encourage business to locate overseas, said Bartlett at a recent U.S. Chamber of Commerce breakfast meeting.

Organized labor is very aggressive and operating very smart this year, said Bartlett. Even so, he added, "the margin between defeat and victory of labor's agenda is slim, and if constituents rally and voice their opposition, these proposals will never become law."

The plant closing bill is likely to be the first on the agenda to be debated in the House. "No one is against the principle of forewarning employees of plant closings, but mandating advance notice may actually cause some plants in limbo to close," he warned. In addition, the bill goes beyond advance notification and requires employers to consult with labor before closing a plant or laying off workers, he said.

Prompter Prompt Pay?

Supporters of a move to beef up the Prompt Pay Act hope the measure will win final passage by August, the first anniversary of the White House Small Business Conference. The legislation to amend the law was one of the 60 recommendations to Congress made by last year's small business gathering.

The legislation is designed to make the federal government pay its bills on time. The original act, passed in 1982, requires Uncle Sam to pay bills within 30 days or pay interest to the vendor. In emergency situations, the government could have an additional 15 days to pay.

But the General Accounting Office reports that a quarter of the government's bills are still not paid on time, the grace period has become routine and late payments don't include interest.

Under the bill, federal contracting agencies would be required to establish procedures to ensure that contractors are paid in a timely manner and to require the automatic payment of interest on overdue payments.

The legislation would phase out the present 15-day "grace period" during which agencies are not required to pay interest on late payments.

Last year, a similar bill was passed by the Senate but was not considered by the House.

"This year we expect the bill to clear Congress and be signed by President Reagan, who supports the measure," says Kenton Pattie, director of the Coalition for Prompt Pay. "It has broad backing with 77 Senate cosponsors, and a companion bill is gaining support in the House."

The Forms Are In The Mail

Nearly 7 million handbooks containing instructions and forms that employers need to comply with the Immigration Reform and Control Act were mailed after June 1, the starting date for enforcement of the law.

The act makes it unlawful to hire illegal aliens and requires employers to fill out and maintain identification and

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Commissioner Alan Nelson of the Immigration and Naturalization Service told a recent press conference that the handbooks should reach employers by the middle of July. Each handbook contains two reproducible copies of the I-9 form, which employers must complete to verify that those hired since Nov. 6, 1986, are eligible to work in the United States. Nelson said no citations for employers who knowingly hire illegal aliens will be issued in June, with the exception of blatant violators.

At press time, Congress was debating a bill to delay enforcement of the act until October 1 to allow more time for employers to become familiar with its provisions. NB

Small Business Report

Hatching More Incubators

The number of business incubators has more than doubled during the past year, says the National Business Incubation Association in Carlisle, Pa. There are now 205 incubators in the United States, compared with 100 a year ago, and the number is expected to reach 300 by the end of this year, says NBIA executive director Carlos Morales.

Business incubators are designed to help start-ups and struggling young firms survive their early years. Incubators provide affordable rental space, shared office services and access to management assistance in marketing, strategic business planning and information systems.

Tapping A Growth Market

A partnership developing between small and large firms will ultimately result in advantages to both types of companies, says small business expert David Birch.

"Large corporations have figured out that the growth of small companies is big business," notes Birch, founder and president of Cognetics, Inc., an economic and market research firm in Cambridge, Mass.

One of Birch's major claims to fame is his 1979 landmark study, "The Job Generation Process," in which he found that the majority of new jobs in the U.S. are created by small companies, not by the country's largest firms.

In regard to the new partnership he sees occurring, Birch says, "Large companies are the pot of gold at the end of the rainbow for smalls. They are the marketplace for small companies."

For example, small companies can win large firms as clients. "Large companies badly need what we have," he says.

In another mutually beneficial arrangement, large companies can acquire small firms for a particular kind of innovation. This involves the purchase of not only high tech companies, but health services, public relations, telemarketing and other types of businesses.

When a business is acquired, "an entrepreneur cashes in his chips after building his business. It is a way for an individual to achieve a substantial amount of money, a factor which drives many entrepreneurs," he says.

In addition, there are many services that large firms can provide small companies at a relatively modest cost. For example, some of the Big Eight accounting firms will provide tax assistance at very reasonable rates.

Another example, says Birch, is the Small Business Partnership program recently launched by American Express.

The program conducts studies to identify the needs of the small business community and to spot emerging trends, problems and opportunities.

"Large companies are the pot of gold at the end of the rainbow for smalls," says David Birch, founder and president of Cognetics, Inc., Cambridge, Mass.

PHOTO: RICK FRIEDMAN—BLACK STAR

American Express has formed an advisory council, a group of small business owners and experts, who serve as a sounding board for the partnership program.

Birch is chairman of the council, which will advise American Express on the development and tailoring of products and services to help smalls manage more effectively.

In addition, the partnership program is publishing a quarterly index of economic indicators to assess small business health.

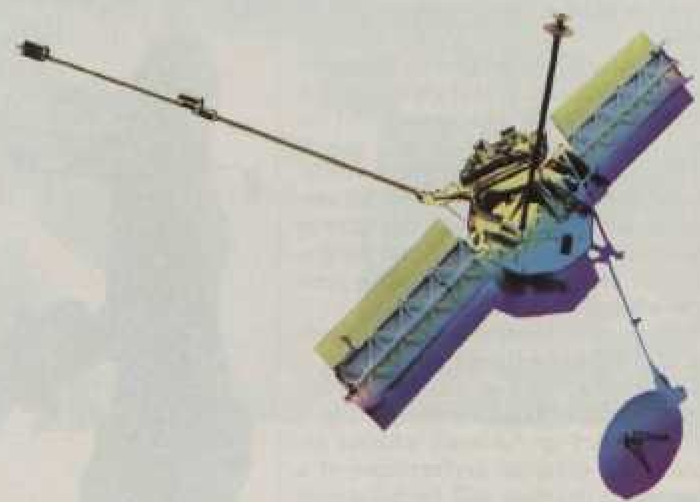
The program's index represents a composite of four key indicators: demand for products, borrowing costs, operating costs and small business optimism. A small-business growth index, a bi-annual measurement of small business growth and performance, is also planned. NB

This Month's NB TIPS

If you run a service firm, you'll find helpful marketing advice in a new book. *Marketing Your Service, A Planning Guide For Small Business* was written by two well-known service marketing experts, Jean Withers and Carol Vipperman. The price is $12.95, plus $1.50 for handling, from Self-Counsel Press, 1303 N. Northgate Way, Seattle, Wash. 98133.

"What's Your E.Q.?" (Entrepreneurial Quotient) is a game produced by Northwestern Mutual Life Insurance Company. Playing the game is supposed to reveal the factors that help people become successful entrepreneurs. $1 from "What's Your E.Q.?" Northwestern Mutual Life, P.O. Box 76, Thiensville, Wis. 53092.

We're already making plans for the year 2000.



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MILES AHEAD

COVER STORY

Winning Your Own Game

By Roger Thompson

Charles Curley, president and CEO of Crent Company, a San Francisco distributor of packaging products, says that attention to quality service has been the key to his firm's success. It has become a market leader in Northern California in just 15 years.

Linda Hughes of Arlington Heights, Ill., and Chris and Sue Stangland of Eugene, Ore., had much in common as entrepreneurs. They launched small businesses about the same time, nurtured them with hard work and innovation and did so well that they attracted strong competition.

The parallel ends there, however. Hughes' company is still going strong, but the Stanglands' enterprise went under.

Their experiences spotlight a fundamental question to which nearly all successful entrepreneurs seek the answer sooner or later: Why do some companies soar under major competitive pressures while others collapse?

And there's no doubt that competition is going to be there.

The Arthur Young Business Plan Guide advises those contemplating a business start-up: "Almost without exception, the eventual performance of a prospective business will be influenced by external factors over which the business has little or no control. Most notable is competition."

Says Ian MacMillan, professor of entrepreneurial studies at the Wharton School of the University of Pennsylvania: "It's a fact of life that if you have a really good product and you're making a lot of money on that product, you are a prime target for competition."

A successful enterprise built on a single product or idea might suddenly find itself in an underdog role against competition for many reasons—the opposition might have more experience and resources or it might just have more marketing savvy, more imagination when it comes to improving the basic product or greater ability to cut costs and prices.

Consider how Linda Hughes and the Stanglands reacted to tough competition.

In typical entrepreneurial fashion, Hughes had started her business in the basement of her home, but it wasn't long before Lin-Art, Ltd., had a team of

When faced with competition, one high-flying small business crashes. Another soars to new heights. What makes the difference?

"Resting on your laurels because you have a great product or a great service . . . is fatal," says Ian MacMillan, of the Wharton Business School.

PHOTO: SAL DIMARCO—BLACK STAR

national sales representatives selling hand-crafted Japanese wall hangings known as Chokin. They are made of copper gilded with gold and silver.

She had shrewdly laid claim to the market by negotiating a contract with the Chokin artisans in Japan to be their exclusive distributor in North America. The prospects for the business were dramatized when her first shipment from Japan sold out just in her neighborhood.

Commercial interest in Chokin took off when she displayed her imports at the 1977 Chicago Gift Show, and the response there led her to hire the sales force to market the objects to gift, decorator and retail furniture stores. Orders flowed in faster than the shipments arrived from Japan.

In 1980, Hughes expanded her market for Chokin when she began to design items like vases. The most successful adaptation proved to be a limited-edition plate that she sold to the Hamilton Mint. But her success did not go unnoticed. By the mid-'80s, Hughes recalls, the Chokin market was awash with "cheap imitations" imported by small and large companies.

Hughes' sales slumped, but she weathered that first crisis by diversifying. Drawing on the sales experience she had built through Lin-Art, she launched an office supply company that generated $1 million in sales in its first months.

She has also met the competition for the Chokin market head-on. Hughes recently developed a new outlet by signing a joint venture with a small firm that makes decorative wooden boxes. The company will put Hughes' Chokin designs on its products, and her sales force will market them as executive gifts.

"I'm looking at every avenue, taking advantage of every opportunity to diversify," she says. Had the company remained dependent on its original Chokin products, Hughes explains, the competition "would have forced me to close my doors."

A key factor in her survival was her ability to identify and plan for the competitive pressures.

It was a different story at Pepperwood International, the company the Stanglands founded in 1977 with $1,500. They bought a mold for making various types of rubber stamps from a friend who had been unable to develop a mail-order market for them. The Stanglands were confident they could make the idea work.

They sold 25,000 stamps the first year and 6 million in the fifth year. The company employed 90 people to keep up

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with the demand for its 300 designs, which included messages, birds, animals and licensed cartoon characters.

In 1984, however, a major competitor entered the market and the Stanglands' sales dried up. They had started to recover when a nervous lender called in their loans, and Pepperwood went out of business.

In retrospect, the Stanglands agree that, ironically, their initial success was a factor in the eventual collapse of their business—they were too busy filling orders to see the approaching storm. "I didn't pay attention" to the competition, Chris Stangland recalls, noting that failure to develop new products had left his company vulnerable to competition.

One way that an entrepreneur can minimize vulnerability to aggressive competition, suggests Don Berno, legislative counsel to the Small Business Center of the U.S. Chamber of Commerce, is to remember the reasons why the business succeeded in the first place.

"Small business people became successful because they were good at a number of things," Berno points out. "They identified a market niche. They developed a product, and they implemented a market plan. Those same skills are useful throughout the life of a business. A small business person who faces competition needs to go through the same processes."

While planning won't make up for the lack of a good product or service, it is an important part of developing a strategy to take on the competition, Berno says. Business owners swamped by day-to-day operational commitments often can't find the time, he notes. His advice: Get away from the office or shop on a regular basis and think about the future of the business.

"Have a regularly scheduled retreat for your top management team," he suggests. "Ask tough questions:

- "What more can we do with this product?
- "What similar products can we make with minimal additional investment?
- "What kinds of feedback are we getting from our sales force and customers?"

Berno warns against sacrificing planning to immediate demands: "You have to have discipline in planning. You must have communication, not only about your industry, but also on what your customers are saying. What it boils down to is that top management of any small business has to think, think, think about new ways to use product, about new markets and new customers. Don't worry so much about brush fires as about new and creative things you can do."

Evaluating the competition can even begin before an entrepreneur launches or acquires a business. Business professors Norman M. Scarborough of Presbyterian College and Thomas W. Zimmerer of Clemson University advise in their book, *Effective Small Business Management:*

"Know thy enemy. Rarely does a business not have direct competitors. The seller may make it sound as if his business stands alone in the market. This is probably nonsense. The potential profitability and survivability of the business will depend a great deal on the behavior of competitors. How many competitors are there, who are they and how does this business rank among them in the customers' eyes? . . . The trend in competition is another factor to consider. How many similar businesses have closed in the past five years? . . . It may be that the market cannot support the present number of businesses of the type you are considering buying (or starting)."

Scarborough and Zimmerer also warn of taking on the role of underdog at the outset: "In a small or medium-sized city, be concerned about competing against well-managed businesses with a track record of success. Such businesses have earned their customers through years of service and are difficult to compete against."

Once you have committed to a business, another expert warns, beware of

Channeling Employee Competitiveness

Do your workers know who their competition really is?

That's not an idle question, says Harry A. Olsen, president of Maximum Potential, Inc., Reisterstown, Md., a job performance counseling and training firm.

In some companies, he says, employees' competitive instincts are targeted at each other or at management, rather than at the real enemy, the competitor who is trying to drive their employer out of business.

Olsen suggests that managers take a "people audit" to determine whether their workers are expending so much competitive drive inside the organization that there is not enough left over to take on the external opposition.

Olsen suggests that managers make a close examination to determine the extent to which these factors are present in their organizations:

- Power jockeying, jealousy and turf fights between key people and key departments;
- Favoritism to less-qualified people;
- Insufficient coordination and teamwork;
- Discriminatory actions, including sexual/racial innuendoes and put-downs; more advancement opportunities for men than for women and for whites rather than nonwhites;
- Insufficient teamwork and coordination of efforts;
- Communications breakdowns;
- Insufficient recognition of individuals and their contributions;
- A climate of suspicion, with people feeling they must be on their guard for reasons they can't define;
- Bypassing of certain individuals or departments in the distribution of information and resources;
- Dismissal of employees' suggestions without full consideration or for poorly defined reasons;
- Employee expectations of hostility and rejection from superiors and/or co-workers;
- Territorial protection, even at the expense of company goals;
- Day-to-day employee behavior that suggests they are more concerned about winning or losing in their on-the-job conflicts than they are with doing the type of job needed to keep the company competitive.

The challenge to managers, Olsen says, is this:

To distinguish between "mistakenly competitive" people—those whose competitive drive actually undermines the company—and the "positively competitive" individuals who can identify and work against the company's real opposition.

Linda Hughes, of Arlington Heights, Ill., founded Lin-Art, Ltd., to import hand-crafted Chokin art wall hangings from Japan. When imitators flooded the market, she created a Chokin design for limited-edition collectible plates, below.

PHOTOS: T. MICHAEL KEZA

relying on the one-basket approach. "If what you have is a single product with very little value added, there's no real business there anyway," says Joseph R. Mancuso, president of the Center for Entrepreneurial Management, Inc., an educational organization in New York City. "What you have is a short-term business 'opportunity.' But that's not a business. A business requires ongoing activity and growth."

The Wharton School's MacMillan offers a triple strategy for achieving that ongoing activity and growth:

- Develop a better product—"Small companies are inherently more innovative than large companies. As you exploit the benefits of a great product, you'd better be looking at what is the next innovation."
- Refine your market niche—"Tailor your product or service more precisely to segments of your market. If you cannot segment the market further, why are you competing?"
- Offer better service—"Find out what kind of additional service you can provide. Large companies can beat you on price, but your clients may be prepared to pay a premium for good service."

Linda Hughes' development of new uses for Chokin to get out from under the competition that developed in her original line was an example of the importance of heeding MacMillan's advice to "be looking at what is the next innovation."

E. Deane Kanaly of Houston knows about building a large enterprise from a small market niche. He gave up a successful banking career 12 years ago to launch a company specializing in trust management and financial counseling.

"I started from scratch, with no accounts and no business," says Kanaly. "But we have prospered in spite of intense competition." That competition has developed with the growth of the financial-planning industry. Kanaly Trust Company manages $350 million in assets invested by clients from 26 states and 11 countries. Its founder says that no other independent trust companies have been formed to challenge him, largely because of the heavy capital investment required.

Claiming the ultimate market niche, he says, "I think we are one of a kind."

MacMillan's dictum on good service as a way of meeting the competition is implemented by privately held Crent Company, which distributes packaging products in the San Francisco Bay area. The company is a market leader after only 15 years in a highly competitive business.

"Our initial problem was getting a share of the market in an industry where there were probably 75 competitors," says Charles Curley, Crent's president and chief executive officer. "We took the posture that we would build on integrity and a high degree of customer service, and it worked. It's a lot easier for a competitor to duplicate a product on price than it is to take away integrity and service."

The company started with three employees in 1972 and has 65 today. It distributes a variety of packaging products, from cardboard boxes and shopping bags to plastics and foam. "We are small enough that we give personal service and provide reliability," Curley says.

John Ward, a professor of private enterprise at Loyola University of Chicago, endorses that approach, noting that "small companies have to play off the strengths they have."

He advises entrepreneurs in tight competitive situations:

"Concentrate on areas that require close personal relationships with your customers. Use flexibility—develop adaptations and customizations of your product or service. Promote yourself in your unique market—sponsor a Little League team or a charity."

Unfortunately, he adds, "planning is something I find most businesses do not do very well. It's not a fancy process. It is not a high-powered, sophisticated, computer-driven or MBA-driven effort. It's basically sitting down and saying, 'O.K., how do I think about my business?' "

Whatever major or minor strategies a business develops for taking on tough competition, it must remember that the most critical factor is the people who are expected to implement those strategies—the company employees. The experts say that too many managers send teams into the competitive battles without realizing that its members are not ready for the challenge.

Harry A. Olsen, president of Maximum Potential, Inc., of Reisterstown, Md., a consulting and training firm on job performance, says that internal conflicts among employees within an organization or between the employees and managers often undercut the ability of a company to take on an outside competitor. The business owner must make time "to find out what is going on inter-

nally" before an external competitive strategy can be developed, Olsen says.

The challenge, he adds, is to channel those internal competitive drives into a cohesive force that can be used against the outside competitor: "You have to get all the butterflies flying in formation."

Management, he says, must rally a unified effort against a common enemy, the competition, by convincing employees "there's someone out there trying to do us in. We are a small company and we are threatened. We all have a strong interest in joining together to survive."

That team-building process, Olsen says, might involve a redefinition of company goals in terms of the employees' own goals and an all-out campaign to show workers that this has been done. He warns, however, about the use of internal competitions, such as contests, to motivate workers to compete as a team against the firm's competition.

"Contests pitting employees against each other are all right if handled properly, but they can also get out of hand," Olsen says. "They can create the impression that the enemy is not out there but is right here."

John Ward points to another potential internal problem that should be addressed before a company goes out to take on the competition. Many family businesses formed after World War II have become more conservative with time and also face serious questions of succession and continuity, he says, and there is a danger that a lot of such firms "are losing their resolve."

There are, of course, strategies other than direct confrontation when it comes to dealing with the competition.

One possibility gaining growing attention is conversion franchising, in which an established enterprise becomes a unit of an existing franchise operation.

A number of independent business people have taken that route after watching competitors, including large franchise operations, move into their territory. The biggest block to that course for many entrepreneurs is the fear of the loss of their independence.

That is not necessarily the outcome of conversion, says Dave Liniger, CEO and founder of Re/Max International, a real estate franchise that is third in its industry in quantity of sales.

"Basically, the small entrepreneur doesn't have the resources for large-scale buying or advertising that the big company has," says Liniger. "Franchising offers that opportunity, but leaves the entrepreneur pretty much in charge of his business. He gets the benefits of multimillion-dollar ad campaigns and training that only a large corporation can afford."

Joining forces with a franchisor also gives the independent business person fresh ideas, he says, and that is essential, because "most people do not look past things they are comfortable with."

The franchisor can offer a number of advantages to a franchisee, says Bonny LeVine, vice president for special projects and a founder of PIP Printing, the leader in the quick printing industry. "We offered owners 2 percent below prime financing last year to purchase sophisticated new equipment. We offer regional training workshops, hands-on training in graphics, printing and computer skills, as well as customer service, marketing and sales techniques."

> *"It's a fact of life that if you have a really good product and you're making a lot of money on that product, you are a prime target for competition."*
>
> —IAN MACMILLAN
> PROFESSOR OF ENTREPRENEURIAL STUDIES, WHARTON SCHOOL OF THE UNIVERSITY OF PENNSYLVANIA.

A franchisor like PIP can keep the owner-operators afloat in a competitive business by pooling the capital of all of them. "The printing industry is in the midst of a shakeout where only those with the necessary resources will remain viable," LeVine says. "As the marketplace becomes increasingly more competitive, only those firms with the necessary capital allocated to advertising, training, research and operational support, plus the necessary management expertise, will come out on top."

While various types of planning and strategizing are critical to winning the competitive wars, there may come times when no amount of planning or strategizing is enough to hold off the competition. In that case, advises the entrepreneurial center's Mancuso, the response is, "Don't fight, run." It's a matter of immutable economics, he holds: "If you've got a specialized niche and someone comes into that niche with a cheaper product, you can't compete. You've got to move."

Some companies that feel the competition has become too aggressive conclude that their only recourse is to the courts. But that strategy carries its own problems. It is expensive and time-consuming. Legal fees can quickly run into the thousands of dollars and the proceedings can divert an entrepreneur from a business for lengthy periods.

Harry Melkonian of White & Case, a Los Angeles law firm, specializes in small business and says he sees an increase in the number of entrepreneurs contemplating legal action against larger firms. But, he says, "It's not easy for a small company to deal with a large company in court. I counsel my clients to try very hard to avoid a lawsuit."

But there are also common denominators between smaller and larger companies in the competitive battles of the marketplace. As smaller companies seek techniques that will help them grow large, bigger firms see the advantages of an entrepreneurial outlook in remaining innovative.

"Large companies have begun telling themselves in the past few years that they should have some of the advantages of smallness," says John Ward of Loyola.

One sign of this change is the surge of interest in "intrapreneuring," a term coined by author Gifford Pinchot III to describe a technique many corporations are using to speed the process of innovation. The word, "intrapreneur," Pinchot says, "is my shorthand for intracorporate entrepreneur."

The idea evolved from managers' concern over the departure of highly creative employees from corporations for the entrepreneurial environment they felt necessary to development of their ideas. In a typical intrapreneurial operation, a group of corporate employees is given the financing, facilities and freedom to pursue potentially rewarding ideas in the same atmosphere they would enjoy as entrepreneurs running their own business.

In his book, *Intrapreneuring*, Pinchot tells corporate executives:

"Intrapreneuring is a revolutionary system for speeding up innovation within large firms by making better use of their entrepreneurial talent. It can allow you to hold onto your best innovators by providing them with the opportunity to make their ideas happen without having to leave. . . .

"Our society is caught in a tug of war between bigness and smallness. We yearn for the personal satisfaction, independence and freedom of small organizations. But we cannot return to being a nation of [only] small proprietorships because the tasks of modern society are too complex. . . . Tasks like making automobiles, building space shuttles and even distributing soap are still more efficiently done on a relatively large scale. What is needed is a way to have the advantages of both bigness and smallness at once."

He also warns corporate employers: "If employees' good ideas aren't being implemented, these potential innovators are probably leaving to become entrepreneurs—in many cases to become your competitors."

If intrapreneuring provides one way for larger companies to take advantage of entrepreneurial skills at the heart of small business formation, technology offers another way that both larger and smaller firms can improve their competitive techniques.

Loyola's Ward points out, for example, that computer-driven robotic machinery makes it possible for large firms to customize production and compete more directly with specialty companies. On the other hand, he adds, it also helps the smaller firms in their competitive efforts: "As technology gets cheaper, it gives small companies access to resources they never could afford in the past. You can buy an awfully powerful personal computer today for $1,000, whereas computers used to be too expensive for small firms to purchase. The same holds true for machinery on the plant floor and even for bar-coding technology that helps retailers track inventory."

Harry Olsen of Maximum Potential says that small businesses can take advantage of another competitive technique used extensively by larger companies—market research—without major investments.

He suggests that enterprises developing competitive strategies use both present and former customers as a resource for guidance on what they are doing right and wrong from the customer's viewpoint.

For example, he explains, a manager might ask some longtime customers to discuss informally why they keep on buying from the business and what, if anything, they don't like about it.

The findings should point to areas of strength that should be emphasized in future competitive battles as well as to weaknesses that should be shored up before other customers are lost.

This information, the consultant says, could be highly valuable in analyzing the current ability of an enterprise to withstand competition.

The customers' answers could be even more useful: They could form the basis of a total reappraisal covering products, pricing, quality, service, customer relations and marketing.

Such creative uses of market research, along with technology and other competitive strategies, are among the many reasons why small business, despite its problems and pressures, remains the most robust sector of the American economy today.

More than 700,000 enterprises were started in 1985, reports David Birch, director of the Program on Neighborhood and Regional Change at the Massachusetts Institute of Technology.

In fact, small businesses have added most of the 21 million jobs created in the United States over the past decade.

Despite those impressive numbers and the aura of success surrounding the age of the entrepreneur, Ian MacMillan says it would be a fatal mistake for small businesses to think they hold some form of immunity from the forces of the marketplace.

"Some people think that because they are small, they don't have to compete. But they're wrong. Resting on your laurels because you have a great product or a great service in the marketplace is fatal. It takes courage and imagination to survive." NB

To order reprints of this article, see page 36.

MANAGING YOUR BUSINESS

Keeping Up In The Fast Lane

By Nancy L. Croft

Margie Tingley knows the importance of good morale to keeping her employees' creative juices flowing. She has designed a training room where a realistic sky painting on a dome ceiling gives the illusion of sunny spaciousness. She also has painted a tropical rain forest on the walls of one of her company's cinder-block stairwells. She even has gone so far as to dye her hair red and green for the Christmas season.

"It all comes down to bringing a lot of excitement to your work," says the president of software design firm Tingley Systems, Inc. "I've tried to create a pleasant environment for my employees, and I give them a lot of freedom. Creative people need a feeling of spaciousness."

Tingley's San Antonio, Fla.-based company, which develops comprehensive management software for health maintenance organizations, has doubled revenues annually since its founding eight years ago. Last year it grossed $20 million. Tailoring software to a burgeoning industry put Tingley, 49, in the fast lane, but she says it is her special attention to boosting employee morale and creativity that keeps her there.

Each year hundreds of entrepreneurs join the ranks of fast-growth companies, yet few can maintain control of a company that doubles in size year after year. What is the secret to handling such exponential expansion? *Nation's Business* asked this question of seven fast-lane entrepreneurs, and their answers were surprisingly simple.

"Complete employee accountability" is what James Callano says has helped him maintain the fast-growth momentum of his business seminar firm, CareerTrack: "On Friday afternoon, every person in the company is sitting at his or her desk, writing out exactly what they've done in the last five days."

From the mailroom up, employees update their supervisors on their special achievements and any problems they need help with. "It all flows up to me, and I read 20 different reports every week so I'll know what's going on," says Callano, 29.

Boulder, Colo.-based CareerTrack has doubled revenues annually throughout its five-year life, and last year it grossed $26 million. Chivas Regal recently recognized Callano's savvy with one of its first annual Young Entrepreneur Awards.

Margie Tingley, founder of Tingley Systems in Florida, uses her natural talent as a painter to create an environment that will inspire creativity in her software designers.

PHOTO: JIM TUTEN—BLACK STAR

Keeping management and business plans finely tuned is also key to Callano's success. "We're getting really big right now," he says, "but my partner [Jeff Salzman] and I have been able to keep the organization lean with only five layers of management. We've tried to avoid having 17 layers of management and bureaucracy."

Like Callano, Henry Haimsohn, founder of PACE Membership Warehouse, Inc., also believes in the power of communication. "In a high-growth environment, particularly when you start at base zero as we did three years ago, there is a tremendous amount of difficulty in managing to keep everybody and every task pointed along parallel paths," he says.

After its first two years of operation, PACE, a cash-and-carry chain of 25 warehouses that sell wholesale brand-name products from office supplies to groceries, reported net revenues of $275 million, a 261.5 percent increase from its start-up year. In the first three quarters of 1986, PACE grossed more than $360 million.

"Communication is among the most critical [considerations] in that kind of an environment," stresses Haimsohn, 40, also a Chivas Regal Young Entrepreneur Award winner. He gathers his top managers at headquarters once a week for staff meetings where they plan the next week's course of action.

Most new business people, however, are not prepared for success, say fast-lane entrepreneurs. One mistake that causes hot start-up businesses to lose their sizzle quickly is simply failing to make sure supply can meet demand.

Samuel Hinote was so sure his product would be in great demand, he devised a way never to be caught with empty shelves—or ponds, in his case. Hinote founded Delta Catfish Processors, Inc., in 1981, when health and fitness concerns were pushing consumers toward eating more fish.

Anticipating booming sales, Hinote implemented a system that would guarantee a constant, large supply of product year round. He issued a 100 percent private stock offering—open exclusively to catfish farmers with ponds near his Indianola, Miss., processing plant.

"It was important to have a guaranteed supply for the market to attract big customers," says Hinote, 44. "Having stockholders committed to supplying the company gave us an advantage over our competitors who had to purchase on the open market."

For every acre of pond that farmers pledge to harvest for Delta Catfish Processors, they may buy one share of stock. Hinote says the company always has a waiting list of farmers wanting to buy stock. This edge, says Hinote, is what has fueled the company's rapid growth. The 1,200-employee company's 1986 sales—$100 million—were double those of the previous year. And in less than six years, Delta Catfish Processors has become the largest corporation

Many new businesses come flying out of the starting gate, but sustaining the momentum over the stretch is something only a few achieve.

Samuel Hinote, founder of Delta Catfish Processors, Inc., Indianola, Miss., issued a private stock offering to catfish farmers in the surrounding area. The farmers' vested interest in the company's success guarantees a continued supply of fish, which, in turn, has lured lucrative contracts for Delta.

PHOTO: T. MICHAEL KEZA

in the farm-raised catfish industry.

Alex Roudi's avenue to fast growth was based on the knowledge that the country is filled with people who want to be their own bosses. Roudi, president, founder and franchisor of Coverall North America, Inc., of San Diego, researched several industries before he settled on office maintenance and janitorial service.

"I saw a lot of room for improvement in the cleaning industry," he says. In researching the field, Roudi says he noticed that most companies were mom-and-pop operations with high customer turnover. "The labor force in the cleaning industry is unskilled, they are paid minimum wage, and there is no motivation for them to do an outstanding job."

But Roudi discovered that if he kept the cost of a franchise to a few thousand dollars, moms and pops could keep their full-time day jobs while supplementing their incomes with their own office maintenance businesses in the evenings.

"The majority of people who start in this business do so because it's basically risk-free," says Roudi. "We provide them with accounts, they have their own small businesses, and they have the highest motivation to provide an oustanding job on a continual basis."

And the more motivated the franchisee, the faster Coverall grows. In his first year of business, Roudi sold 42 franchises. Today the company numbers more than 600 franchises with gross sales of $6.5 million in 1986—a 198 percent gain over the previous year.

Fast-lane entrepreneurs are eager to talk about how they have survived their own success. Danny Adair, for instance, saw his roofing materials manufacturing company grow from $3.9 million in sales in its first year of operation in 1982 to $36 million just two years later. Most entrepreneurs would be content with that kind of growth, but the president of U.S. Intec, in Port Arthur, Tex., was nervous.

Adair, a well-seasoned entrepreneur (he has started seven businesses—most of them related to construction) was familiar with the potentially lethal consequences of runaway growth. To meet the explosive demand for his roofing materials, Adair found himself visiting the bank more and more often to borrow for needed expansion during the company's first three years.

"It takes a lot of capital to build three plants in that short a period," he says. "The banks were working with us very nicely, but we were building debt. In a fast-growth company you need cash flow." Knowing that cash flow is less of a problem for public companies, Adair, 42, decided to take U.S. Intec public in 1985.

Although going public provided necessary capital, Adair says it "has slowed down our growth. We started in June and didn't complete the public offering until November. It diverted management's attention away from business, and we often focused on auditors and Big Eight accountants' questions. We quit having meetings because you must go on a road show to sell your stock, and I had to take three of my best managers with me. It's an awesome task to go public."

By the end of the first quarter of 1986, Adair realized that he had been so caught up in the process of going public that he had lost sight of the management of his company.

"I got my managers together and said, 'In 1986 we're going to regain control of this company, and we're going on with research and development of new products,'" which had come to a halt during the stock offering.

U.S. Intec ultimately generated $40 million in the first nine months of 1986, but, Adair says, "we're not as flamboyant as we used to be. Once, someone would walk into the office with an idea, and we might act on it that moment. Now every decision first has to go to the board, we have to present it well, and we have to get approval on it."

Being public, he says, "is like juggling three balls—shareholders, employees and customers. Your responsibility to all three increases a hundredfold."

PACE'S Haimsohn also compares managing his public company to a balancing act. "There is the need to spend more time dealing with analysts and shareholders—additional responsibil-

James Callano, president of CareerTrack, Inc., says attractive employee incentives have helped his business skyrocket. He wants his Boulder, Colo., company to be considered one of the 100 most desirable workplaces in the country.

PHOTO: DENNIS CHAMBERLIN

ities," he says. You have to satisfy the market's short-term demands by showing quarterly profits. "That is somewhat in conflict with long-term strategic planning.... But in many ways, being successful in the short term can ensure long-term success. It's important to bring them together so that short-term planning and long-term prospects are consistent, and that's a continuous balancing act."

James Callano, on the other hand, found that slowing down his company's rapid growth would be the surest way to secure future expansion. "If you try to grow at rates of 100 percent a year, you could end up crashing and burning," he says. "This past year we grew 75 percent. But we're tweaking our systems, planning further in advance—nine months instead of three." Callano says he expects CareerTrack to grow only 30 to 40 percent this year.

Entrepreneurs who don't have the foresight to "tweak" their fast-growing companies may find they lose sight of their original purposes. Fast-lane companies, says Larry Hohol, president of privately held Penox Technologies, are constantly bombarded with temptations to diversify in many directions during start-up years. "Once you taste a little bit of success, you have a tendency to want to branch out into new ideas and marketplaces."

Hohol's Pittston, Pa., company manufactures and distributes home health-care products, such as liquid oxygen. Last year it grossed $20 million (10 times his first year's revenues). He says he is tempted every day by myriad opportunities to expand.

Although Hohol has had no formal business training, the former police officer's common sense warns him of the dangers of straying from his company's main purpose. "It's extremely important in your start-up phase to put blinders on. Don't let opportunities distract you. Don't deviate from your course. Accomplish your mission, and after you've accomplished it, then you can start looking at ... diversification."

Passing up opportunities is not that difficult, says Hohol, 30. "There are innumerable opportunities out there. They may take a different shape or form a year from now, but they will still be available."

Maintaining company momentum demands a lot of personal stamina from these business people. How, in this high-stress environment, do our fast-lane entrepreneurs keep up their own energy levels to meet the daily demands of success? Most say they draw their energies from their work.

"I always try to mix a little pleasure with business," says Tingley. "I try to go to a few shows while I'm on a business trip."

CareerTrack's Callano says the energy it takes to survive his 90-hour work-week comes from being obsessed. "My partner and I are both self-help junkies," he says. "We read everything, listen to everything, watch videos, attend conferences."

But the real secret to keeping up in the fast lane, says Callano, is to "pursue your passion. Ultimately you can only be a success in what you're interested in." NB

The Benefit Of Benefits

Anyone calling James Callano at the office on Thursday afternoons is greeted only by constant ringing.

That's because Callano, president of CareerTrack, is across the street at his favorite Boulder, Colo., restaurant with his 185 employees for their weekly Thursday Afternoon Club meeting—actually an excuse for a few hours of socializing over beer, wine and snacks.

Callano says the secret to his company's success is motivating its employees. "We want to be known as one of the 100 best companies to work for."

Among the rewards CareerTrack offers for exceptional job performance are being chauffered to lunch in the company's limo, summertime family picnics, a formal Thanksgiving dinner-dance and being featured as CareerTracker of the week, month or year in the company's newsletter.

But fringe benefits did not always flow so freely at CareerTrack. "We used to be cheapskates," says Callano. "In the early days of forming a company, every dollar counts—particularly when you have no outside financing. We didn't want to overspend in any one area, and we negotiated for everything—including salaries."

As the company stabilized, Callano realized the benefit of benefits.

"Being more generous has led to lower [employee] turnover, better morale and happier people," he says. "That became more important to us than putting yet another dollar in the savings account."

But, Callano stresses, "We don't just throw a lot of money at our employees." Most of the time a pat on the back is worth a lot more than a check, he says.

MANAGING YOUR BUSINESS

Printing Franchises: Quick, Growing

By Ripley Hotch and Don Shipley

Franchisors in the quick printing and copying industry agree that maintaining their phenomenal growth will require every possible use of advances in technology.

The number of franchised outlets in printing and copying services was 5,973 in 1986, according to the U.S. Commerce Department. Combined sales were $1.1 billion and are expected to reach $1.2 billion in 1987. In 1969, sales were about $8 million.

Franchise outlets account for about 20 percent of the quick printing field, according to *Quick Printing* magazine.

Independent shops are going to feel the pressure from franchises as technology grows more complex, more expensive—and more essential. In the past, quick printers were job shops specializing in simple work and short runs that large printers were unwilling to tackle. Copy shops appeared with the advent of Xerox's copying technology.

Now the line between copying and quick printing is blurring, as is the line between quick printing and large-scale, commercial printing.

Says Kevin Keane, president of the 340-unit Minneapolis-based chain Insty-Prints: "What was once a fairly easy industry to label just as fast printing or quick copying—high-speed copying or very simple offset printing, generally with black ink on some color of paper—is no longer that easy to classify. Now it has moved into what is loosely called the small commercial printing arena. It may be moving toward as fancy a variety of printing as true four-color process printing and it certainly is going to move heavily into the color-printing arena."

"We want to be product innovators," says Vernon Buchanan, president and founder of American Speedy Printing Centers of Birmingham, Mich., one of the innovators in inexpensive, high-quality printing. "We're getting into quick color at the bottom end of the commercial market," he says. That means short runs of high quality that are prohibitively expensive on a larger press. It is a service that small and medium-sized businesses need but cannot afford, says Buchanan, and, because American Speedy will provide it, he believes the chain will jump from its current 425 franchised units to 2,000 units in seven years.

Don Shipley is a Washington-based free-lance writer.

New advances in technology are allowing quick printing franchisors like Vernon Buchanan of American Speedy Printing Centers in Birmingham, Mich., to cut into the market of commercial printers.

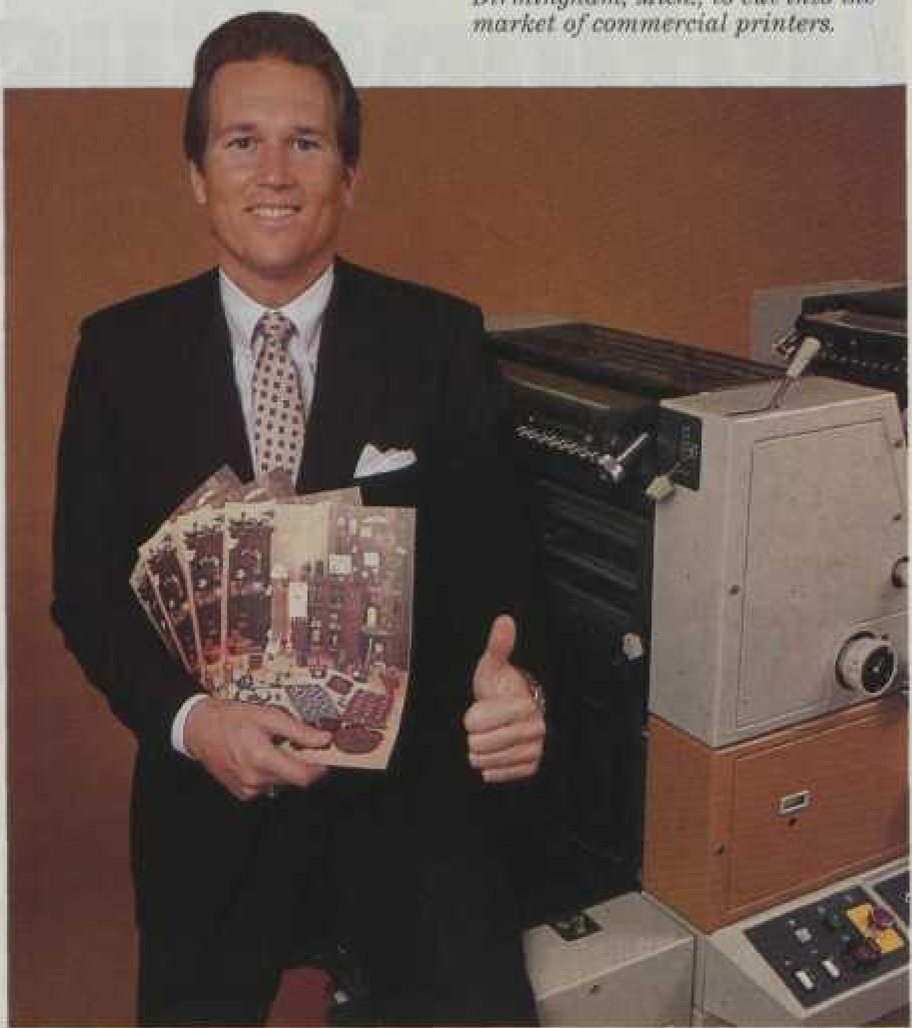

PHOTO: DWIGHT CENDROWSKI

The fast copy franchisor taking most advantage of new technology is Alphagraphics Print Shops of the Future, based in Tucson, Ariz. It was founded by a former Xerox executive, Rodger Ford, who was always close to new technology and incorporated it in his franchise from its founding in 1970. Alphagraphics was the first into desktop publishing, says Don Isaacs, vice president of marketing.

"It was very exciting for us, because quick printing is not quick printing without a camera-ready original," says Isaacs. "Many people want something printed in a hurry, but don't have an original."

Those people, he says, would have to send their material to a typesetter, go through a proofreading process and then return with the original to the quick printer—a process that can take five or six working days and cost as much as $60 for a simple résumé.

Isaacs says Alphagraphics is fully aware that it needs to support franchisees when it comes to the new technology. The company has set up a toll-free telephone number to answer technical questions from owners and managers.

The market for fast printing looks wide open, especially as franchisors take advantage of new technology and create more services.

Other franchisors are not so sure of the value of desktop publishing. "Quite frankly, we've had several seminars on it, and the only expression we make to our owners at this time is don't do anything," says F.C. "Bud" Hadfield, chairman of Kwik Kopy, a 700-store chain headquartered in Cypress, Tex. "We don't see anything on the market that we can really use, but we're working currently with 21 different vendors."

Quik Print, Inc., a 200-unit chain based in Wichita, Kans., has also been slow to take up with desktop publishing, says Marketing Director Johnny Tarrant: "When something new comes up, we don't jump on it. We sit back and look at it for a while. When it proves itself, then we get on the bandwagon."

But service is the key, franchisors say, and that means high technology made friendly by the people behind the counter.

"We're looking for ways now to improve our service, make it even better for the customer," says Hadfield. Kwik Kopy is even bringing employees of the franchisees to headquarters for seminars in how to provide service.

What customers are looking for is high quality and speed, says Keane: "In an instant gratification society such as this, our consumers have decided that they would like to obtain color, and they don't have any particular desire to wait for it. They're used to having their hamburger in about two minutes, and they would like to get their color printing within a day."

"A lot of our people get confused and say we're in the printing business. We're not," says Quik Print's Tarrant. "We're in the service business. As long as you take care of that customer, get him what he needs, like fast turnaround on printing and copies,then we're going to do all right."

The technology that brings fast turnaround is more than new kinds of offset presses or even desktop publishing. It is what Keane describes as an incredibly important trend involving "all the ways one can digitally transform information—ways to shift, transform, move, or recalculate information."

Tarrant describes the way he sees customers using quick printing services in the future: "Our customers will have all this stuff in their personal computers, and they'll be able to transmit this over the telephone wires right to us. We'll capture it with our typesetting equipment. In other words, paperless originals."

Isaacs likes to tell the story of how a customer used Alphagraphics' technological advances in desktop publishing combined with electronically linked computers, which enable it to send camera-ready documents from one store to another.

The customer came into an Alphagraphics store in Virginia. "He had a plane in an hour and was desperate to get a several-thousand-page document reproduced," says Isaacs. "The store owner said 'Hey, where are you going?' The customer said California. The Virginia

owner called another franchisee in California and sent all the originals electronically there. By the time the businessperson arrived in California, the order was ready in the store there."

At least one small franchisor has chosen to stay away from printing altogether, however. Copy Mat, a Berkeley, Calif., franchise chain with 46 units, stays strictly with high tech copying. "We used to do quick printing, but we struggled with it," says Terry Fairbanks, president of Copy Mat. "We found that copying and quick printing don't go together. Printing is complicated and detail-oriented, with lots of complicated equipment."

Fairbanks says that once the printing part of the operation was dropped, store volume dramatically improved. But technology is just as important to a franchisor specializing in copying as it is to the quick printing franchisors. Copy Mat is also using versions of desktop publishing to set manuscripts that are then copied.

But Fairbanks says the real clue is to offer service in a clean and friendly environment. "The true copy center is going to become a service center," he says, offering all kinds of peripheral services for offices. "We have individual mail boxes, self service typewriter booths—in some stores, even office supplies."

Alphagraphics' Isaacs says that his company also offers a wider range of services than printing: "everything you would need for your business short of four-color printing or imprinted doilies and napkins.

"We'll take a business person's communications and change a boring row of numbers into attractive bar graphs and pie charts. We'll be able to put specialty covers on their reports; we'll really be able to enhance their business communications," he adds.

All the service and technology are going to put pressure on independent copy and printing shops, say the franchisors.

Says Harold Lloyd, vice president of sales development for Sir Speedy, a 760-unit chain based in Laguna Beach, Calif.:

"We anticipate that there will be quite a fallout in the next few years, because we think franchising will be stronger and getting a bigger share of the market." Independents, he adds, "don't have the advertising, and they don't have someone looking over their shoulders giving them direction."

Quik Print's Tarrant agrees: "If anyone is going to fall by the wayside, it will be the small mom-and-pop independents, mainly because they're not keeping on track with the new trends. They're saying, 'This is the way we've done it for the last 10 years, and it's how we're going to continue to do it.' And one of these days they're going to wake up, and they're not going to have any business."

That means that the franchise organizations have positioned themselves not only to grow because the printing industry is growing, but to increase market share from their current 20 percent.

"It's the old story," says Sir Speedy's Lloyd: "The strong get stronger; the weak get weaker."

Lloyd says there will always be a large and growing market for quick printing. He points to the fact that more than 700,000 new businesses were formed last year, and "they all needed printing. Whether they're coming or going, they need it. Even if they're going out of business they need it. It's still a relatively safe, recession-proof industry." NB

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MANAGING YOUR BUSINESS

The Threat Of Higher Benefits Costs

By Harry Bacas

William C. Byers, whose Muskogee, Okla., company erects microwave towers, says a bill to mandate health insurance "scares me to think how far [mandating benefits] could go."

PHOTO: STEVE JENNINGS—PICTURE GROUP

"We're already regulated to death," says Donna Reed (left) at the day care center she and her sister, Cindy Vannatta (right), opened last year in Waco, Tex. The center provides several employee benefits, but "our money is tied up in loans we took to start this business, and we can't pay for any more now."

PHOTO: STEVE EARLEY

Small business owners across the country are expressing alarm at congressional proposals to mandate universal employee health insurance.

The focal point of their concern is a bill introduced by Sen. Edward M. Kennedy (D-Mass.), chairman of the Senate Committee on Labor and Human Resources. Employers would have to provide health care coverage for all workers and their dependents "as a condition of doing business."

The Kennedy plan would require employers to buy health insurance for 24 million uncovered employees and dependents at an average cost of $1,186 for each worker. The employer would pay at least 80 percent of premiums and 100 percent for low-wage employees.

The legislation describes low-wage employees as those earning up to 125 percent of the federal minimum wage.

The total cost of the mandated health care plan would be $25 billion a year for all businesses, but small companies would bear the brunt. Nearly half of all uninsured workers are in firms with fewer than 25 employees.

"I dread to think what these proposals will do to our company," says Donna Reed, co-owner of New Horizons Learning Center, a Waco, Tex., day care center for children. The center, only a year old, employs 22. "We're already regulated to death, and our money is tied up in loans we took to start this business. We can't pay any more."

Patricia Albers, secretary-treasurer of the Beckman & Gast canning company in St. Henry, Ohio, worries about "astronomical" costs being imposed on her company. The firm has 15 full-time employees and hires another 135 people for six weeks in canning season. "The entire scheme is mind-boggling to an employer of our size and type."

"It scares me to think how far this could go," says William C. Byers, president of National Steel Erectors Corporation, of Muskogee, Okla. His company employs about 60, most of them specialists who travel around the country erecting microwave towers for telephone companies, the Navy, the Coast Guard and other customers.

The firm's traveling crews, mainly ironworkers and engineers, belong to unions that operate employer-supported benefit plans. The company provides health care coverage directly to its nonunion employees.

All 50 states already have rules about how health insurance is written (but a growing number of those states have begun ordering cost-benefit studies of their own mandates).

Congress, going further, has been getting into the area of specifying which groups and individuals should be covered. In addition to the cost, regulatory and paperwork burdens involved in this approach, business is concerned about a larger question—the growing tendency of Congress to force employers to underwrite costs of social programs that would be politically troublesome to the lawmakers if the bills were presented to the taxpayers.

Mandatory health insurance is viewed as a major example of that trend. The idea that the government might impose a comprehensive health care mandate is "especially disturbing to small business," says William Byers of National Steel Erectors Corporation. "We have enough problems as it is,

Congress may require every employer to provide a wide range of minimum health care benefits to all employees—a huge expense for small businesses.

without Congress sneaking more of these things through the way they did with COBRA"—the Consolidated Omnibus Budget Reconciliation Act of 1985.

That budget act carried a provision—added with no hearings and little debate—requiring employers with more than 20 workers to extend health coverage to workers who leave or are laid off, widows and divorced spouses and some dependents. While the covered individual must pay the premiums, the employer bears the administrative costs, which are considerable.

The new proposals would go much further. They would require every employer to provide a wide range of minimum health care benefits to all employees who work more than 17½ hours a week.

"The time has come to require all businesses in America to offer health insurance to all their workers and their dependents as a condition of doing business," Kennedy said in introducing the bill.

The New Horizons Learning center offers an example of how that sweeping goal would affect individual small businesses. Donna Reed, 32, a former public school teacher with a master's degree, last year joined with her sister to borrow $40,000 to set up the day care center in a leased building and equip it with furniture, washers, driers and refrigerators. The sisters now have 177 children on the rolls and 20 employees.

They give their employees paid vacations and sick leave, and they make work schedules flexible, so employees who need time off can make it up without loss of pay.

But since the young company is still paying off its start-up loans, adding more benefits will be difficult.

"If we are forced to pay for more benefits, we would have to drop the extra help that allows flexible scheduling, fill the classrooms to the brim, make people work longer on split shifts, max everything out. It would make working here more stressful and less attractive, and we would lose some employees," Reed says.

The Kennedy bill would require employers to provide insurance covering all "medically necessary" hospital care without an annual limit on days, plus care by physicians, diagnostic tests, prenatal and well-baby care and catastrophic protection. The latter provision would limit a family's out-of-pocket expenses to $3,000 a year for services covered by the bill.

U.S. businesses now provide health care coverage for 132 million people—employees and their dependents—at a cost of more than $110 billion.

The plan to extend coverage to all workers by government decree is supported by some health provider organizations, such as hospitals. They argue that at least part of the cost of providing care to uninsured workers is recovered through higher bills for insured workers. As a result, companies with health insurance plans say, their premiums are higher than they would be if all workers were covered. The organizations say that providing care to uninsured workers is a drain on their resources.

The opposition to the mandated health insurance plan is most intense among small businesses.

Patricia Albers, whose company, Beckman Gast, operates small canneries in two locations in Ohio, wrote Kennedy to tell him how his proposal would affect her firm:

"What this might add to our labor costs would be astronomical," she wrote. "Consider that we have only 15 full-time, year-round employees, but seasonally we hire on an additional 135. These employees might work as little as two weeks or as many as 12. The coverage that would be required would be about equivalent to the coverage we

now have for all full-time employees.

"Costs vary on our current coverage, but an average for our younger employees is $162 a month. Let's say that we had 135 seasonal employees for two months; 135 times $162 equals $21,870, and for two months, that's $43,740.

"If you are used to dealing ... with millions and billions, this may not sound like much, but to us it is major."

Albers wrote that because her current coverage is more expensive for older employees, "we would be discouraged from hiring an older man over a younger man, and we would have to hire additional office help just to handle the paperwork of adding this many employees to our plan."

She added: "Sometimes a man quits after three days. According to your proposed draft, that man would be a full-time employee and entitled to coverage. The entire scheme is mind-boggling to an employer of our size and type.... Please consider our point of view and squelch this proposal now."

William Byers says he understands that Congress wants to advance social programs but is reluctant to add to budget deficits. "I'm not unfeeling; I know there are social needs," he says. But "our benevolent legislators have found a way to provide their constituents with all kinds of employee benefits at no cost to the taxpayers, because business is forced to pick up the tab."

The Small Business Administration's chief counsel, Frank S. Swain, told the Senate Small Business Committee that about 55 percent of firms with fewer than 100 employees offer health coverage while in large firms it is nearly universal. But he said there are "sound economic reasons" for this disparity.

He said such industries as retail trade, services and construction, with a high concentration of smaller companies, have low and uncertain profits and high employee turnover. They also employ a disproportionate share of workers for whom it is more difficult or more costly to obtain health insurance—the young, old, women, low income and part-time workers. And administrative costs of plans for small groups are higher.

As a result, Swain pointed out, smaller companies' health insurance premiums are 10 to 15 percent higher than those of larger employers.

Instead of imposing new mandates, Swain said, Congress should offer incentives for businesses to install flexible, competitive benefits.

For example, he said, Congress could provide an important incentive by increasing from 25 percent to 100 percent the deduction provided in the 1986 Tax Reform Act for unincorporated businesses' health plans.

The proliferation of state health care laws has already raised costs for business, says Robert E. Patricelli, president of Value-Care, Inc., a health care management company in Connecticut, and chairman of the U.S. Chamber of Commerce's Health Care Council.

The imposition by the government of federal mandates that "overlap already burdensome state directives" has become an ominous trend, says Patricelli. He told a recent congressional hearing that the Chamber is concerned about "this piecemeal approach of federal restrictions on health plans, which are not being considered against the broader background of costly state-mandated requirements."

A second member of the Chamber's Health Care Council, Fredric M. Rohm, of Newark, Del., told another congressional hearing that "mandating health care benefits reduces employer-employee flexibility, imposes costs that diminish American competitiveness and imposes costs that are too expensive for many small firms to bear."

Rohm urged Congress at least to "apply a serious cost-benefit analysis to the various mandated benefits proposals it considers."

And, as the advocates of those benefits cast themselves as defenders of the worker, people like Donna Reed ask from the perspective of businesses they have struggled to establish what happens when the bills outrun the financial resources of employers:

"If we go under, 20 employees will no longer have jobs and 177 children will be denied the quality educational environment we provide for them. How can anyone possibly think this is helpful?" NB

To order reprints of this article, see page 36.

THE NATION'S BUSINESS

International Spotlight

The debt burden of Latin American countries means they have less money to spend on goods imported from U.S. manufacturers.

Blues South Of The Border

Caterpillar is just one of many U.S. firms responsible for the $30 billion-plus sales made to Latin American nations last year. However, if the region's debt woes don't ease soon, U.S. exports will continue to decline.

PHOTO: ROBERT NICKELSBERG—GAMMA-LIAISON

Add up all the merchandise American business sold last year to West Germany, France, Italy, Spain, Portugal, Norway, Sweden, Denmark, Austria and Greece.

It will not equal the $30.54 billion in U.S. exports to Latin America.

So why are American manufacturers and farmers wringing their hands over south-of-the-border trade? Because those exports have fallen 37 percent since 1981, and, with some exceptions, the downward trend is continuing.

Staggering under debts, Latin American economies are continuing to slash imports and step up their own exporting to earn enough hard currency to pay interest to financial institutions in New York, Tokyo and Frankfurt.

Economic woes in Latin America have gone far beyond being a banking problem.

John Plunket, a director of a Mexico City auto parts manufacturer owned jointly by U.S. and Mexican interests, recently told the Senate Finance Committee in Washington that hundreds of thousands of American jobs and billions of dollars in sales revenues are disappearing because of shrinking markets in Latin America.

Those markets did not fall sharply because Latins no longer desire American products.

Far from it, says Plunket; in fact, "they not only want the machinery, the steel and the construction and agricultural equipment that they used to buy, but they desperately need these things if their economies are to grow sufficiently to provide the revenues necessary to give their people higher standards of living and enable their governments to comply with their international obligations."

Plunket depicted Latin Americans "as people caught in a classic vicious cycle. Their economies must grow if they are to service their foreign debt, but the burden of that debt service leaves them without the funds or the credit to obtain the tools necessary for economic growth."

The decline in southward-bound American exports since the onset of the debt crisis "has destroyed 800,000 jobs," says Sen. Bill Bradley (D-N.J.), who has proposed reducing the interest rate on outstanding loans made to Latin American countries, shaving the principal and pumping new funds into the region.

By contrast, Treasury Secretary James A. Baker III suggested that the debtor nations stimulate economic growth and accept International Monetary Fund advice on structural reforms of their respective economies. He also urged banks to lend Latin American countries more money.

In Brazil, many companies that fueled their early industrialization with American-made capital equipment purchased in the 1960s are trying to meet production needs of the 1980s and 1990s with that same machinery.

Christoper Lund, an American who publishes business and industrial magazines in Sao Paulo, Brazil's principal industrial city, says: "There is an absolute need to update plants and equipment. Brazilians cannot buy new American equipment because they have to pay the banks first."

On February 20, Brazil suspended interest payments on more than $68 billion in foreign debt. President Jose Sarney's economists observed that monthly trade surpluses were running much lower than the amount needed to keep up interest payments.

The move sent shock waves throughout world money circles, but analysts expect Brazil to resume payments in the future.

American industrialists in Brazil weren't surprised. "It is obvious that Brazil cannot continue to sustain its current level of resource allocation to debt servicing and at the same time maintain economic growth," said American Chamber of Commerce President David Benadof on the eve of Sarney's announcement.

Members of the Association of American Chambers of Commerce in Latin America (AACCLA) are very interested parties in this issue. Speaking before Congress recently, AACCLA President John Chandler, also president of Chase Overseas Corporation in Miami, said:

"It behooves both our host countries and our corporate and banking memberships to be in the forefront of events that promote a revived investment interest and commitment to Latin America."

It is a myth that Latin America's debt problem rests primarily on the shoulders of banks in the United States, said Chandler, noting that only 40 percent of the region's loans were made by Americans. "The impact on U.S. commerce and export industries is equally dramatic and potentially longer lived in terms of lost markets and jobs," he said. Chandler urged American banks and merchandise exporters to work hand in hand toward a solution to their intertwined problems in Latin America.

Mexico, the United States' fourth biggest trading partner, badly needs fresh infusions of cash, says Stephen Friedman, president of American Express in Mexico City. He also observes that restoring economic health to Mexico will help ensure political stability.

Despite the difficulties many Latin American nations face, there are good sales opportunities in the south for U.S. firms. U.S. Commerce Department analysts say Mexico has a continuing need for machinery and equipment for its oil, gas, electricity, agriculture, distribution, telecommunications, hotel/restaurant, pollution-control, ceramics and glass industries.

Economic woes in Latin America cut deeply into the export muscle of American companies operating in the southern half of the hemisphere.

Other needs are for such things as computer systems, including software, and medical equipment.

Brazilian requirements for parts and equipment, the Commerce Department officials say, are in the areas of electronics, medicine, scientific research, computers, textiles, telecommunications, aviation and industrial production.

There are thousands of other market niches throughout Latin America for businesses large and small. Whether export opportunities expand or continue to contract is a matter that will be influenced by the region's overall financial health.

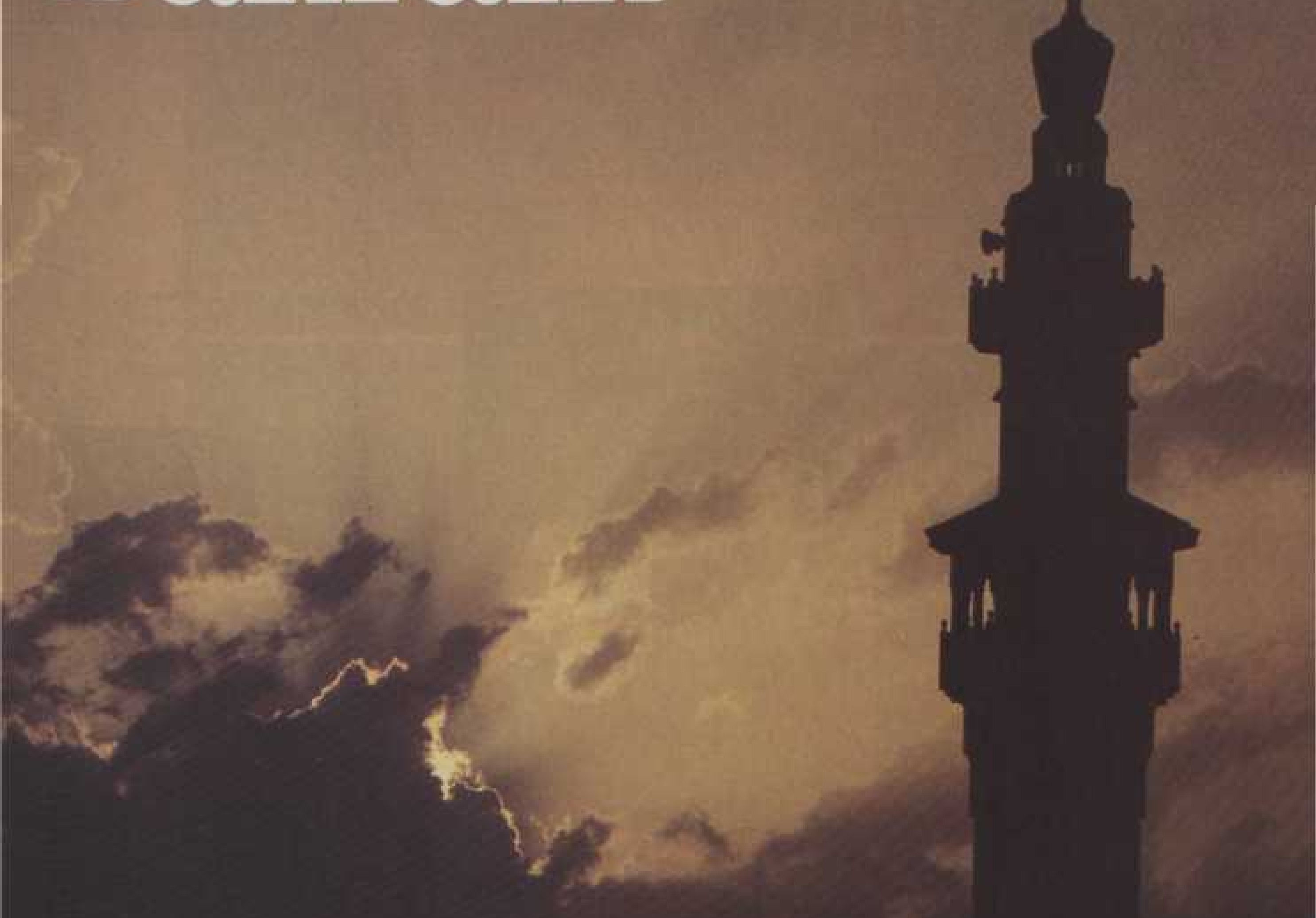
The interweaving of economics and politics in the western hemisphere is posing critical challenges. Market-oriented leadership is crucial, analysts say.

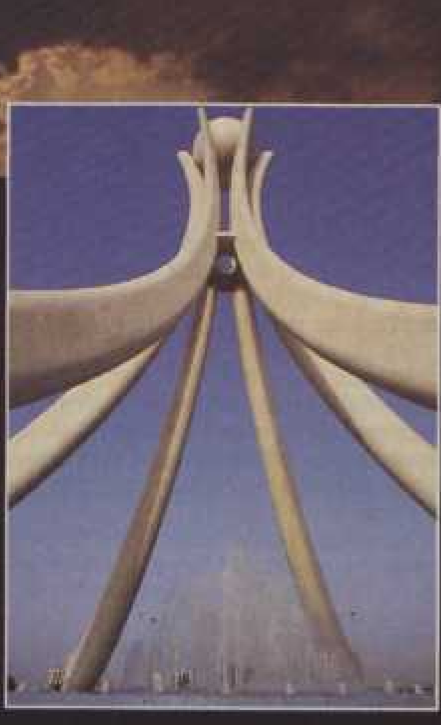
The first step, they point out, is defusing the debt bomb. NB

—Henry Eason, with Brian Nicholson in Rio de Janeiro and Herbert Lash in Mexico City.

SPECIAL ADVERTISING SECTION

Bahrain





Island Of Opportunity

H.E. Shaikh Khalifa bin Sulman Al-Khalifa, the prime minister of Bahrain, is using his government to foster economic diversity.

PHOTO: BAHRAIN MINISTRY OF INFORMATION

Bahrain has always been seen as a very special place in the Middle Eastern world. Ancient Sumerian poems from the Epic of Gilgamesh describe Bahrain—then known as Dilmun—as the land of immortals, where heroes were transported to live in eternal bliss. No such claims are made today, of course, but Bahrainis do maintain quite factually that their country is a unique commercial oasis in the Arabian Gulf.

On the cover: Bahrain can be seen as a series of modern scenes layered upon the traditional symbols of Islamic culture. You can find many luxury items in the shops of Manama and good business opportunities where the pearl market preceded energy wealth. (Photo of boats by David McDowall; other photos by Michael Leidel)

H.H. Shaikh Isa bin Sulman Al-Khalifa, the amir of Bahrain, has led his nation to its position as a modern force in the Gulf.

Hundreds of Western firms are making Bahrain their base camp for business expansion in the region.

This 5,000-year-old country has moved steadily into the modern era, adapting many of its practices to global economic and cultural standards as it has moved along.

The history and future of Bahrain took on a new dimension with the opening of the Saudi Arabia-Bahrain Causeway late last year. Built at a cost of over $1 billion, the 27-kilometer link at last unites the island with the rest of the Arabian peninsula and thus expands the role it has played in Gulf trade.

Bahrain is now looking forward to the benefits the causeway will bring. Already hotel occupancy rates have reached almost 100 percent, while the island's property market has received a strong shot in the arm.

Hundreds of small traders report an upsurge in business, but they are counterbalanced by those who fear the competition the causeway will prompt.

The link, officially known as the King Fahad Causeway, has opened markets that were previously either inaccessible to

H.E. Shaikh Hamad bin Isa Al-Khalifa, the crown prince and commander-in-chief of the Bahrain Defense Force, ensures peace in his land.

PHOTO: BAHRAIN MINISTRY OF INFORMATION

Bahrain traders or at the least fraught with dangers.

The Gulf Cooperation Council, a six-nation organization encompassing Bahrain, Saudi Arabia, Kuwait, Qatar, Oman and the United Arab Emirates, has in seven years done much to streamline Gulf trade. Only now, however, with prohibitive sea or air transportation costs done away with, is Bahrain likely to feel the full benefit of the favorable trade status.

The future looks rosy, and it is the bridging of the Gulf that has made the difference.

Until 1975, banking in Bahrain was confined to commercial financial institutions serving traders and residents of the island. Since then Bahrain has experienced phenomenal growth. It is now the highest-volume financial center in the Middle East.

The reasons for its success are deceptively simple. Banks and financial institutions in the region were not equipped to

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B A H R A I N

Manama, Bahrain's capital city, has become an oasis of modern commercial services helping American businessmen.

cope with the investment and recycling needs of oil exporting nations or the companies that sprang up as a result of their profits. With Beirut proving a less attractive base for investment, the Bahrain government announced the introduction of Offshore Banking Unit (OBU) licenses by which foreign banks could operate without having to meet local ownership requirements.

The government then introduced Investment Banking Licenses, which made it possible for banks and financial institutions to accept deposits from both residents and nonresidents.

Trading volume of OBUs peaked in 1983, and although there has been some decline, most agree current developments are conducive to good business.

The controlling bank body in Bahrain is the Bahrain Monetary Agency, which acts as a central bank.

Although the smallest of the Gulf Cooperation Council states, Bahrain plays an active and vital role in the region and is at the forefront of economic and political activity.

Perhaps because of a more liberal outlook than the other Gulf Council states, or possibly because of a more enlightened government under His Highness the Amir, Shaikh Isa bin Sulman Al-Khalifa, Bahrain has been attracting investments, and it has generally been rewarding those that make

PHOTO: DAVID MCDOWALL

long-term commitments to the nation.

Bahrain is favorably located in the heart of the Arab business world. The population of the Gulf Council states is some 15 million with an average per capita gross domestic product of $15,000 yearly—the highest regional GDP in the world.

With purchasing power in such numbers, it is not surprising that investors have been attracted to the region. But the further potential for the future of markets in Iraq and Iran, once peace returns to those countries, is also proving a lure. Also, the large trading houses in Bahrain are represented across virtually the entire surface of the globe.

Already, the world's top 200 banks are operating in Bahrain, linking the globe's major capital cities. International firms of lawyers, accountants and consultants further provide backup to a modern world business center.

Foreigners living in Bahrain enjoy everything the modern world has to offer, including state-of-the-art health care that is subsidized by the government.

In addition to an extensive system of government clinics and hospitals, there are also numerous private practices as well as private hospitals.

With over half the population younger than 25, the Bahraini government naturally places heavy emphasis on education. In fact, the 1986-87 budget issued by Finance Minister Ebrahim Karim put education as the biggest expenditure at $300 million.

This massive government investment has manifested itself in increased numbers of schools and colleges. Bahrain is also the site of the soon-to-be-completed Arabian Gulf University—flagship of the Gulf Council's educational program.

Bahrain is also a security oasis. As a member of the Gulf Council, Bahrain's defenses are firmly linked to other powers with modern weaponry.

Naturally, the government must be wary of developments with the seemingly interminable Gulf War to the north, but the is-

MAP: SUZY PARKER

Bahrain Facts

Official name: State of Bahrain
Leader: H.H. Shaikh Isa bin Sulman Al-Khalifa, The Amir of the State of Bahrain
Population: 422,000
Labor force: 150,000, 42 percent Bahraini; 85 percent employed in industry and commerce; 5 percent agriculture; 5 percent services; and 3 percent government
Language: Arabic; English widely spoken
Land: Main island, 676 square kilometers; 32 smaller isles
Natural resources: Oil, natural gas, fish
Major industries: Petroleum processing and refining, aluminum smelting, offshore banking, ship repairing
Major trade partners: United States, Japan, United Kingdom, Saudi Arabia
Ports: Mina Sulman and Mina al Manamah
Airfields: 3
Telecommunications: Excellent
Highways: 225 kilometers surfaced

land has been at the forefront of promoting dialogue between Iran and Iraq.

Bahrain is firmly allied with the West and maintains especially good relations with the United States.

Bahrainis and expatriates enjoy a high standard of living. Shops and markets stock the widest variety of merchandise from around the world.

While Bahrain was the first country in the Arabian Gulf to strike oil, government estimates show the island will achieve a less desirable first—the first to run out. Since 1975, Bahrain's oil output has been steadily declining at the rate of about 5 percent a year.

At present rates of recovery the country may run out of oil by the end of the century—a grim statistic considering the oil sector still accounts for nearly two thirds of government revenues and export earnings.

Bahrain's government is, however, looking into the future far beyond the time of oil wealth. Nonetheless, the country still boasts sizable reserves of natural gas. These reserves are under-exploited and probably will become the biggest source of energy in the next century. In fact, expansion plans for the island's refinery include upgrading the plant to produce gas.

The Bahrain Petroleum Company (BAPCO) is planning a $900 million refurbishing over three stages that will make it the most advanced refinery in the world.

At present, the refinery is showing markedly higher profits. Early losses were put down to buying fixed OPEC-priced oil from Saudi Arabia for refining and then competing with more aggressive refiners on the products market.

The Minister of Development and Industry, Yousif Ahmed Alshirawi, is also BAPCO chairman and confidently predicts the refinery has turned the corner. (See page 46.)

After oil, aluminum has become the most important industry in Bahrain, and, when the crude goes, may well be the flagship of the economy.

Started 15 years ago, Aluminum Bahrain (ALBA), Bahrain's main aluminum company, finally came of age last year when the board of directors gave the go-ahead for a $120 million expansion plan. The expansion will boost production at the Askar plant by about 25 percent to 200,000 tons a year.

ALBA's financial position is rock-solid and the shareholders—mainly the Bahrain and Saudi governments and Kaiser Aluminum—have given unwavering support to expansion plans. Production costs have held steady for 10 years. ALBA has increased productivity per employee threefold and looks set to become the first major industry to achieve total "Bahrainization."

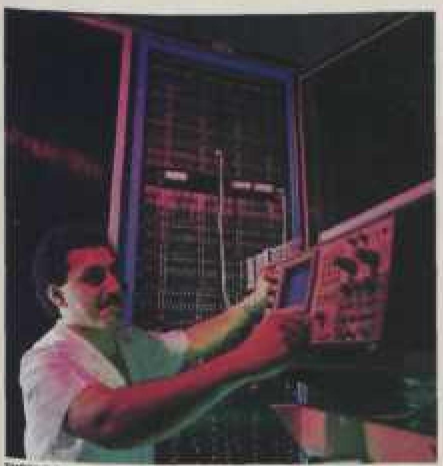
With nearly 2,000 people on the payroll, ALBA naturally is being held up as a jewel in Bahrain's industrial crown.

The success of ALBA has spawned downstream aluminum industries, chief among them the Gulf Aluminum Rolling Mill Company (GARMCO). Apart from a small rolling mill in Iraq, GARMCO has almost the potential to supply an estimated 90,000 ton market by 1990.

The Bahrain Saudi Aluminum Marketing Company (BALCO) was established to market ALBA's production both in the Gulf

Telecommunications services in Bahrain are rated among the best in the world. Fast and clear transmission is easy work.

Aluminum powder produced in Bahrain is heading for Japan. The island nation is diversifying far beyond oil wealth into many industries.



PHOTOS: DAVID McDOWALL

and abroad. Recent top-level strategy has put the emphasis more on long-term markets than spot deals, and, as such, management is confident of riding the tide out.

The Arab Iron and Steel Company (AISCO) would appear to have been a bit ahead of its time. Owned by various companies and state agencies from Bahrain, Kuwait and Jordan, AISCO has been beset by profits problems since the $33 million plant came on stream two years ago.

The plant, built by Japanese contractors, has a capacity of 4 million tons of pellets a year. By last year, however, it was producing—intermittently—just 600,000.

The Iran-Iraq war has effectively done away with two major markets for AISCO, but with forecast Gulf-wide demand for about 7 million tons, it boasts great potential.

The Arab Shipbuilding and Repair Yard (ASRY) is now firmly on a growth curve. Last year the yard averaged a dry dock occupancy rate of over 80 percent, but authorities believe there is still a lot of business left untapped. While no Gulf country

would like to make capital of the Iran-Iraq war, ASRY officials have to be frustrated that many of the casualties of the so-called "tanker war" seek repairs at the larger Dubai facilities, further south, or even outside the region.

A recent analysis of the yard's activities suggests ASRY should concentrate less on land work, such as steel fabrication, and more on ship repair. The report also suggests numerous internal programs that experts foresee leading to a better period of profitability.

Over the past two years, the island's light industries increasingly have been calling on the government for protection against overseas manufacturers.

However, while the government has been sympathetic to the calls, it is believed official thinking prefers a more "hands off" approach to the market.

The fight for a better deal against competitive imports has united small industries somewhat, and as a result traders have been calling for increased import taxes or more stringent quality control tests on

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Bahrain Airport Services' superb ground support equipment allows workers to handle cargo easily.

Catering thousands of tasty meals daily is no problem for BAS. Its kitchen staff is able to prepare many of the world's cuisines.

There is one very good reason why Bahrain has the reputation of being the air capital of the Arabian Gulf. It's called Bahrain Airport Services. A private firm, operating under franchise, BAS' more than 1,800 employees provide state-of-the-art services for handling traffic, cargo, engineering and catering.

Each year more than 3 million people pass through Bahrain International Airport, making it one of the Gulf's busiest.

Bahrain soon will offer even expanded air services when its new cargo terminal goes into full operation this summer. More than 26,000 square meters will house cargo and customs activities, ensuring that merchandise is speedily dispatched.

There will be a mechanized container cargo-handling facility, facilities for special cargo that must be chilled or frozen, as well as for livestock and dangerous goods. The new terminal is designed to manage 57,300 metric tons per year, but has room for expansion.

BAS' traffic services routes people and baggage with modern ease. Its expert cargo crews handle the full range of export and import wares. Its maintenance services rival any in the world. And its caterers provide 10,500 tasty meals daily.

SPECIAL ADVERTISING SECTION

Bahraini bankers are known around the world as being among the canniest and most resourceful in the region.

PHOTO: DAVID MCDOWALL

goods. The government cautiously implemented protective legislation last year with the financial help of nearly $1 million from the United Nations Industrial Development Organization.

While the government is pleased local industries are taking steps to improve competitiveness, Development and Industry Minister Alshirawi has made it clear it would not become a prop to lame-duck manufacturers. Government has, however, continued with the policy of giving purchasing priority to local industry.

Bahrainis argue, with considerable justification, that their island is the most logical entrepot and distribution center for firms doing business in the Gulf area. Bahrain is virtually free from restrictions on trade and capital flows. There are no exchange restrictions. Duties on most imports are between 5 percent and 10 percent.

Bahrain is in the forefront promoting greater inter-Gulf trade, offering expanded trade opportunities for prospective joint venture partners from other nations. With the opening of the new causeway, Bahrain is likely to become a much larger transshipment zone for goods flowing from the Arabian peninsula.

This small but vibrant nation is, indeed, coming to have an impact far greater than its geographic size. It has done so by making intelligent choices when reaching crucial crossroads. More than 80 percent of its budget this year will be allocated to social development projects and services, the sort of projects that build its people's skills and expand its infrastructure.

In addition to modernizing its airport terminal and passenger services, Bahrain will soon complete the construction of a new urban area, Hamad Town. It will make major improvements to its container handling facility at Mina Sulman port. It will

Yousif Ahmed Alshirawi, minister of development and industry, says Bahraini infrastructure coupled with its highly skilled workers creates the foundation for more diversity in the economy of the oil-rich nation.

Openings For American Investors

During an April visit to the United States, Yousif Ahmed Alshirawi, Bahrain's minister of development and industry, shared some of his views on his country's investment prospects with Nation's Business. *Here are excerpts from his remarks.*

PHOTO: T. MICHAEL KEZA

Nation's Business: Minister, how can American companies participate in the industrialization of Bahrain?

Alshirawi: First, a little background. We went from oil production into oil refining, then into manufacturing products like ammonia, methane, alcohol and aluminum. Now, we are preparing ourselves for the second step in our industrialization. We are preparing to become an industrial center producing the new technologies needed throughout the Middle East. We are interested in discussing this new stage with American companies.

With one American investor, for example, we have formed a local company that is building the instrumentation for petrochemical and oil refining plants. This is high technology. You bring in the computer science to control the temperature, flow and movement of the liquid and so on.

There are other aspects of industrialization that really need new technologies, as in the production of ammonia, methanol and various chemical derivatives to service downstream operations.

Nation's Business: Bahrain is very interesting as an industrial center. But your country also offers to foreign firms many unique business services that they perhaps cannot get as easily in other parts of the region. For example, banking, insurance and sophisticated marketing services. Tell us a little about those.

Alshirawi: You know, we talk about industrialization, but I think manufacturing alone will not succeed unless you have the critical backup. Can you ship? Can you telex? Can you travel? We are becoming the aviation hub in the area. We talk to Atlantic satellites. We talk to Indian Ocean satellites. All this is available. We can dial the world. In fact, it is easier to dial from Bahrain to the United States than the other way around.

We have the housing. We have the schools. An American investor or operator in Bahrain will not find life different than when he is at home. He can enjoy his hobbies, good schools for his children, health and sanitation, hospitals.

What incentives do we give? We have no income tax. There is no regulation on currency. There are no duties or import licenses or quotas on the import of raw materials, nor on the export of finished products. Manpower, of course, is available in Bahrain. Those with highly managerial and technical abilities are quite available. So are middle management people and artisans and tradesmen. Whenever a plant needs manpower, it is available.

We are flexible. We have a walk-in sort of attitude. We give you a pamphlet, information. We have a few regulations about the use of industrial areas, but there are only a few. A job to us is a great enterprise. We sit and talk and negotiate and agree and sign.

Nation's Business: Tell us a little bit about how you have channeled your great wealth.

Alshirawi: The government wisely invested in human beings, in their health and education. That was the immediate concern. So when wealth began to accumulate with the passage of time we were ready to establish a modern government and to go from a primitive sort of society to a more complex society.

The second step was to build an infrastructure of industrial areas, ports, airports, communications and installations. So we were the transit area of the whole Gulf when it opened up.

Eventually, we increased our capacity to trade and industrialize. This took us 30 or 40 years to achieve.

Nation's Business: You have diversified into the production of aluminum, petrochemicals and in quite a few other industries?

Alshirawi: Our resources are limited by Middle East standards. We were the first in the [oil] club, and we were the first out of the club. The government was very, very keen to get this revenue. The government had always to pay salaries and wages, to help support the economic life of the country. Beginning in 1965 we began to worry what would happen when the oil dwindled.

We have natural gas, too. So immediately we embarked upon industrialization. We went into aluminum. It was never done before and involved new technology for the Arab world. But we had confidence in ourselves.

Today, the aluminum industry is prosperous. It is stable. The technology was absorbed and we have been able to improve it. We have done this with partners in the United States and in West Germany. Now we have the technology and we know how to market, so we can go downstream with this industry.

Nation's Business: So now you are prepared to go well beyond the basic resources of petroleum and natural gas?

Alshirawi: Well, yes. But oil and gas can be two things for you. Either a source of raw material or a source of energy. Oil is a source of energy. You can use it for power generation for a smelting industry or cement manufacturing.

You know we are entering a new age of plastics and petrochemicals that is very important. We have gas as a raw material. We have a plant in Bahrain producing methanol and ammonia.

Nation's Business: To summarize, you welcome American investors?

Alshirawi: We have a warm feeling for Americans and welcome their investments. Bahrain must become competitive in the world. This means we need modern technology. To have a competitive edge, we must manage our funds, secure our resources, use the best technology to produce things cheaper than anybody else. This is where we think there is an opportunity for us and an opportunity for American business.

expand and improve Manama's diplomatic quarter, as well as the new Civic Center Complex and Museum, the $1 billion causeway and the Arabian Gulf University at Sakhir.

Because of accelerated industrialization, coastal zones were recently established mostly on reclaimed land to minimize loss of agricultural land. These zones are mainly for heavy and light manufacturing and industry that need access to port facilties. Bahrain's first major industrial area was established close to the port at Mina Sulman in 1960. Within two years it was full and the expansion has continued. Today, there are even "specialist zones" for light industries like handicrafts and woodwork, to preserve traditional artisan activity.

Even though its land is scarce, there is an agricultural economy on the main island and the lesser islands, and there is also the potential for its expansion, with high tech farming. The government is committed to reducing the nation's dependence upon food imports. Basically, the development of its agriculture is limited by water scarcity and the salinity of the soil. Apart from the narrow strip of land in the north, the rest of the island is bare.

A six-year development scheme is being implemented to boost the country's food production. The government is also giving priority to Bahrain's fishing industry. Under this assistance program, materials needed by fishermen can be purchased on a 50 percent subsidy basis and a mobile workshop exists to provide spot service. As a result, fish catches have been increasing.

The government aims to provide free educational opportunities for all children. The Ministry of Education runs 140 schools for boys and girls at three levels. Higher education is also available at Bahrain University, where there is an emphasis on engineering, business management, health, computer programming, hotel and catering services and many other disciplines.

When Arabian Gulf University is completed, Bahrain's education culture will grow even more, adding to the island's image as a commercial and high tech think tank in the region.

The tourism industry in Bahrain is particularly pleasing to visitors. There are numerous historical scenes illustrating ancient practices on the Gulf. Archaeological work has uncovered many interesting finds. They are on display in museums and at the sites. Fed by springs, Bahrain also boasts beautiful gardens and fresh water pools.

Bahrain's hotels are world-class in their recreational offerings.

In short, the island has all the conveniences of the modern world and is poised to provide the worldliest business traveler with the human and natural resources he needs to operate.

Just as Bahrain was a leader in the Gulf area during the early boom times of oil wealth, so it is becoming a pathfinder as the region moves to diversify its economy and move into higher-level industries. It is leading in the development of the most sophisticated business services. It is becoming high tech in manufacturing. And, as many American firms have learned, it is becoming a good partner ready for any opportunities the future may bring. NB

SPECIAL ADVERTISING SECTION

200 And Going Strong

The founding fathers of the United States drafted the Constitution that for two centuries has enabled free enterprise to flourish.

On May 25, 1787, 55 prominent Americans convened in Philadephia to adopt a document that would replace the Articles of Confederation.

Two centuries later, the U.S. Constitution continues to serve its people well and has become a worldwide model of self-goverment.

The U.S. Constitution may seem just a fragile relic, its yellowed parchment pages sealed in a helium-filled enclosure in the National Archives. But this year's bicentennial observance of the drafting of the nation's basic charter should remind us what a vital document it is.

It has provided not only the mechanics of government and protections of such individual rights as freedom of speech and religion, but also has helped create an environment in which free enterprise has flourished.

The 55 delegates called to Philadelphia in 1787 to strengthen the Articles of Confederation convened at a time of serious economic difficulties in the new nation.

The confederacy's credit was exhausted, its securities selling at steep discounts. Farmers were being bankrupted by debt. Commerce was shackled by tariffs and other barriers the newly independent states had thrown up against one another. Southern agriculture and northern mercantile/financial interests were in sharp conflict. Fears had arisen that the infant nation would fragment into regional confederations with their own governments serving narrow economic ends.

The framers—in particular James Madison and Alexander Hamilton—believed that fragmentation could be avoided if the people could be encouraged to turn to commerce. If the new government could give everyone the opportunity to earn property, to amass capital, to have a stake in the nation, then they would support it rather than conflicting local interests.

They shared the belief that owning property was a natural right and, through the Constitution, encouraged a unity based on the sanctity of property and the individual who held it. In short, the Constitution was at its root a document that promoted free enterprise.

"Both Madison and Hamilton knew that national prosperity would not just happen," says Betty Southard Murphy, a member of the law firm of Baker & Hostetler in Washington and former chairman of the National Labor Relations Board. "It had to be fostered by a constitution which encouraged it and protected it and by legislators who, deep in their souls, believed in it."

PAINTING BY STEARNS—THE BETTMANN ARCHIVE

The first article of the Constitution authorized Congress to:

"Borrow money on the credit of the United States;

"Regulate commerce with foreign nations and among the several states;

"Establish ... uniform laws on the subject of bankruptcies;

"Coin money ... and fix the standard of weights and measures;

"Provide for the punishment of counterfeiting the securities and current coin of the United States;

"Establish post offices."

That same article prohibits states from enacting any law "impairing the obligation of contracts." Further, the Fifth Amendment, adopted in 1791 as part of the Bill of Rights, says, "No person shall be ... deprived of life, liberty or property, without due process of law; nor shall private property be taken for public use without just compensation."

The essential protection meant that those who came to America could have something unattainable for them elsewhere in the world—the freedom to work and acquire possessions. And they could keep it for themselves and their descendants. No one could take their property without paying for it.

Peter Onuf, associate professor of history at Worcester Polytechnic Institute and an authority on the founding of the nation, says the framers of the Constitution established "an arena of free enterprise" and "viewed trade and commerce—both domestic and international—as the bases of an enduring union." Over the past two centuries, legislative and judicial actions have greatly expanded government's role in regulating enterprise.

The U.S. Supreme Court has played a critical role. In 1803, in *Marbury v. Madison*, the Court, under strong-willed Chief Justice John Marshall, asserted its power to determine the constitutionality of legislation—the doctrine of judicial review.

The Marshall Court went on to lay the foundations of what became a national marketplace. In *McCulloch v. Maryland* (1819), the Court established federal supremacy in a conflict between federal and state law. The decision de-

The Constitution guaranteed individual freedoms in large part to promote commercial activity by giving each citizen a chance to own property. The result: an entrepreneurial environment that has fostered unparalleled inventiveness in Americans such as Alexander Graham Bell (left).

PHOTO: THE BETTMANN ARCHIVE

nied the state of Maryland's right to tax the Baltimore branch of the Bank of the United States (created by Congress) and sanctioned broad congressional actions:

"Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consistent with the letter and spirit of the Constitution, are constitutional."

In its *Dartmouth College* decision (1819), the Court invalidated a New Hampshire law that sought to abolish the charter of Dartmouth College and bring the school under state control. The Chief Justice wrote in the decision that the charter was a contract protected by the Constitution from state impairment.

In one of the most significant of the Court's interpretations, Marshall also defined what the Constitution meant when it granted Congress the right to "regulate commerce with foreign nations and among the several states."

In *Gibbons v. Ogden*, a case involving an attempt by New York State to establish a monopoly on steamboat service in New York harbor, which includes ports on the New Jersey side, the court held that congressional power over commerce was not confined by state lines but "acts upon its own subject matter where it is to be found."

Thus, state law had to yield to Congress, and the resulting federal regulation of interstate and foreign commerce guaranteed uniformity. The doctrine stimulated an already growing national economy.

The pendulum swung, however, under Chief Justice Roger Taney, who served from 1835 to 1864. In his view, the federal government and the states possessed exclusive areas of authority in which each was supreme. Taney made it clear that he would not strip away rights reserved to the states. That position led to modification of the earlier *Dartmouth College* decision.

A state-chartered company operating a toll bridge in Boston argued that its charter (or contract, under the *Dartmouth* decision) had been impaired by passage of a state law authorizing construction of a nontoll, parallel bridge. Taney's opinion upheld the right of the state to build the second bridge, stating that a corporate charter could not imply the power to act against the public interest—a doctrine still prevalent.

The next shift in the judicial view of the Constitution as it applied to business began amid allegations of monopoly and fraud in industry and finance. The Court supported the government in a series of antitrust cases alleging predatory market practices. One famous case action in that era resulted in the breakup of Standard Oil Company, which had been founded in 1882 by John D. Rockefeller.

It was in the trustbusting atmosphere of the 1880s that Congress passed the Sherman Antitrust Act of 1890, which declared illegal any combination that restrained trade or commerce among the states or abroad. The purpose was in line with the original intent of Hamilton and Madison to give everyone a chance to have a stake in the nation's economy.

On the other hand, the Supreme Court rebuffed the government in the 1930s, when Congress, seeking to end the Depression, passed several far-reaching laws affecting business. Among the most momentous decisions in the history of the U.S. Supreme Court was one involving the National Recovery Administration, which administered a system of production and price controls.

The Supreme Court struck down the NRA as unconstitutional, holding that it represented an illegal delegation of congressional authority to the executive branch of government.

As a result of Supreme Court decisions against major New Deal initiatives, President Franklin D. Roosevelt proposed to expand—critics used the term "pack"—the Court by appointing up to six new justices who would be more friendly to his legislative program. That proposal was rejected by Congress, but a new majority soon emerged on the existing Court and the Roosevelt administration began winning its cases there. Reluctance to interfere with congressional activism in regulating business set the general tone for successive Courts.

While the requirement for due process was once a strong barrier to regulation of business, the Supreme Court's unwillingness over the past half century to use it in that fashion has spawned the federal and state regulatory climate in which businesses operate today.

Where the Court once required strict standards to justify regulation, it is now willing to accept such reasons as "in the public interest" and "for public convenience and necessity."

Today, as the 20th century winds down, still another shift could be under way. Under conservative Chief Justice William Rehnquist, the Supreme Court now is being asked to re-examine many of the laws and regulations governing business in the light of recent developments and modern attitudes.

Issues being raised include employer rights, the lengths to which the government can go to protect the environment, business' free-speech rights and, not far down the road, interpretations of various provisions of the massive tax reform act passed last year.

Although business is frequently unhappy with Supreme Court interpretations of the Constitution, the document remains a critical source of protection for the free enterprise system, constitutional experts say.

Drafted in an age of sail and horses for an agricultural society of 4 million people, the Constitution is proving flexible enough to serve, after just 14 changes since 1791, as the supreme law of an industrial superpower of 240 million. NB

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The Fabric Of Success

After 50 years, Mortimer Levitt's custom shirt business is still looking good. Its prices and its customers look that way, too.

By William Hoffer

Have you ever noticed that the maitre d' in a good restaurant often looks better than the man who tips him?" Mortimer Levitt asks in the opening line of his 1979 book *The Executive Look: How to Get it, How to Keep It*. "The reason is simple. The maitre d' is wearing professionally designed clothes—a uniform, really."

Sitting in his East 50th Street office, in the same Manhattan block that houses Saks Fifth Avenue, the founder and sole owner of The Custom Shop Shirtmakers expounds further: "Men look their *very* best in military uniforms, clerical garb and formal clothes." This belief leads naturally to the cornerstone of Levitt's philosophy that a man should look as good as he is at whatever he does—better, if possible.

In its 50th anniversary year, The Custom Shop Shirtmakers is a thriving enterprise, feeding its 71 national outlets from its 100,000 square foot manufacturing facility in Franklin, N.J. At age 80, Levitt remains active in the operations of the company (managed now by President Anthony Bergamo), yet he devotes much time to skiing, tennis and sailing his lightning-class racing sloop *Mimo VI* (named for his wife Mimi and himself).

The Levitts maintain three residences, all compatible with an active life-style. Their lavishly furnished Manhattan townhouse is near the Metropolitan Museum of Art. Their country home in Westport, Conn., overlooking Long Island Sound, is across town from the Levitt Pavillion for the Performing Arts, which Levitt founded and of which he is the principal patron.

Not content to sell $50 million worth of shirts and accessories a year, Levitt has sought to educate his clientele to the fundamentals of good haberdashery.

During his half century in the shirt business, he has seen fashion fads come and go, and he has rejected most of them as of little consequence.

What is consequential, he believes, is coordinating clothes—something, he says, men generally pay little attention to because the subject has never been part of their curriculum in high school and college.

He has propounded his basic theories not only in print, but in more than 100 seminars presented for corporate executives. In 1979 his company established a corporate division to provide individual fashion consultations covering every aspect of a man's business, weekend and social wardrobe.

Mortimer Levitt, owner of The Custom Shop Shirtmakers (shown hailing a cab outside his New York apartment), started with one store and now has 71.

PHOTO: WAYNE SORCE

The basis of Levitt's advice is contained in his four golden rules:

- *Wear two plains and one pattern.* Either the suit, shirt or tie should be patterned, but only one of them. Wearing all three plain is far better than wearing two patterns.
- *Wear a base color plus an accent color.* The suit is always the base color, accented by the color of the shirt and/or tie.
- *Contrast light and dark.* If your suit is dark, shirt and tie should be light, and vice versa.
- *Fit your shirt collar to four dimensions.* Because the collar frames your face, Levitt says, a properly fitted shirt collar will improve your appearance far more radically than anything else. Those four critical dimensions are collar back height, collar front height, collar size and collar style.

"Follow my four rules," says Levitt. "Then look in the mirror and be surprised at the new you." The fourth of these rules is a key factor in the success of The Custom Shop Shirtmakers. Levitt determined that the single most critical shirt measurement, and the one most often ignored, is collar back height. "You look at the front," he says. "To begin with, I look at the back. Back height must conform to the length of the neck, or it will not project a flattering image."

A high school dropout who still claims, "I never wanted to be a businessman," Levitt was failing in his job as a fabric salesman when, in 1937, he remembered a Russian refugee known by the single name of Mermelstein.

Mermelstein operated a small New York shirtmaking shop. He was able to make a custom-tailored shirt from the customer's own fabric for $1.25 at a time when a comparable off-the-rack shirt sold for 60 cents *more*. Levitt decided he could develop Mermelstein's idea into a full-scale business.

All shirtmakers buy fabrics from jobbers (at about 10 percent less than the fabrics' retail cost), but Levitt, spinning visionary tales of a nationwide network of stores, persuaded the mills to sell to him directly. He set up his own factory at 37 West 28th Street, thus saving the subcontractor's profit paid by most other shirtmakers.

Then he refined the plan. Because he would sell only custom-made shirts, he would need to carry no inventory. He would ask for a substantial deposit with each order and thus use the customer's money for working capital. All sales would be cash-and-carry, eliminating credit and collection costs.

"There is usually one major reason why a business is successful," Levitt says. "In my case, it was the strength

Levitt attributes his longevity in the business to the fact that he has not followed fashion; what is important, he says, is coordinating clothes.

PHOTO: WAYNE SORCE

of the basic idea. I could sell a custom-made shirt for the same price as a ready-made shirt."

With $2,000—half of it borrowed on a life insurance policy—Levitt readied his first retail outlet at 1370 Broadway, two blocks north of Macy's. It opened on a September day in 1937. He was sweeping the floor of the store shortly after 8:30 a.m., when his first customer knocked on the door. "I suddenly had stage fright," Levitt recalls. "It was a reality I was not prepared to face. I said, 'I'm sorry, we're not open. Please come back later.' "

Levitt eventually did open the door, and the shirt business has never been the same since.

"He had a very good concept and the wherewithal to stick to it all the time," says Glenn Bernbaum, chief operating officer of The Custom Shop Shirtmakers from 1960 to 1980. "I ran the business for 20 years, but only within the framework of his concept. He is a hard-sell individual, and that is how he trains the sales personnel."

Indeed, Levitt is his own most forceful salesman. Why buy a custom-made shirt? He bombards the questioner with answers: A shirt that is made to fit everyone seldom fits anyone; once the Custom Shop has your pattern on file, you may reorder by mail or telephone; custom-made shirts wear longer; a custom-made shirt is one of life's niceties; and, finally, it costs no more.

Today's Custom Shop customer can choose from 200 different fabrics. He is then guided in collar styling by a trained designer. Yet the customer will pay no more for this special care than if he had bought a shirt off the shelf.

Levitt says his bottom-of-the-line dacron/cotton blend shirt selling for $29.50 compares favorably with a designer-name shirt selling for $31.50. A shirt custom-made of imported, two-ply, long staple Egyptian cotton sells for $52.50; Levitt says a shirt of that quality would sell elsewhere from $55 to $85 ready-made, depending on the maker.

"There are so few left who have this kind of experience in the made-to-measure business," admiringly notes Henry Schwartz, president of Hartmarx Specialty Stores, Inc., primarily a manufacturer of ready-made men's and women's apparel. "A lot of fine shirtmakers have disappeared, but a Custom Shop customer is loyal. He's found something that fits and is individual."

The author of three books on style and class, Levitt is still not ready to slow down. He has two additional books in progress: *The Return of the Classic Look—A New Definition* and *How to Start Your Own Business Without Losing Your Shirt.*

But despite his success in the shirt business and his extensive writings on fashion, Levitt contends, "I've had more publicity from a restaurant than from The Custom Shop." That is because when Bernbaum left his post as chief operating officer to create a restaurant at Lexington Avenue and 75th Street that has become one of the in spots for New York's beautiful—and fashionable—people, he named the establishment *Mortimer's*, in tribute to his former associate, Mortimer Levitt. ■

How To Look Good

Mortimer Levitt says that he has stayed in business because he stayed away from fashion fads and concentrated on coordinating clothes. There's a knack to it, which Levitt has narrowed down to 10 "Look Your Best" suggestions. They are:

1. Unfortunately, trousers do shrink as a result of rain or dry cleaning, so purchase them one-fourth inch longer than their proper length.

2. Wear over-the-calf length socks to avoid exposing a hairy leg.

3. Wear brown shoes with brown suits, black shoes with everything else.

4. Keep shoes in shape by using shoe trees. Try lace shoes for business, loafers for loafing.

5. "Permanent press" is a misnomer. Unpressed shirts create a blue-collar image. Shirts *must* be pressed.

6. To show shirt cuff, your suit sleeve should be 5¼ inches from the tip of your thumb. Showing linen adds a finishing touch.

7. Try French cuffs, with cuff links. Cuff links add an additional finishing touch, like earrings on a woman.

8. A blazer is the executive's uniform for weekend lunches or dinners. A double-breasted blazer is preferable because one sees six gold buttons on it, while there are only two on a single-breasted blazer.

9. Choose suits according to the color of your hair and eyes; brown eyes look better in brown, blue eyes look better in blue. All men look good in gray.

10. Think of your suit as a picture frame—and your shirt and tie as the picture. Stay away from patterned suits; they complicate color coordination.

PEOPLE

Making It

A cool product in a warm wrapper, tiny creatures netting large profits and unusual cinematic fare.

Hot Ice

Former geophysicist Ted Beverley left government work in chilly Alaska and turned to selling ice in Washington. How did his red-hot Beverley Ice Company attract customers? With innovative—and colorful—packaging.

PHOTO: T. MICHAEL KEZA

At first, the natives of tropical Martinique didn't take to the strange product when American Frederic Tudor introduced them to it 200 years ago. Today, partygoers would be lost without it.

Washingtonians especially like the kind with a hole in the middle. No, not doughnuts—ice.

Ted Beverley, a college-trained geophysicist, walked away from secure government work in Alaska and dropped into an area where the leisure industry was getting hot.

"Certain things were fortuitous," says Beverley. "I got into the business at the right time, and timing is critical in most business ventures."

Beverley began selling ice in 1973 while he was working in his father's commercial refrigeration shop in Washington. He set up a freezer in the gas station next store to the shop and stocked it with bags of ice. The freezer emptied out regularly.

When the United States wants to play, it needs ice. Washington alone, with its political receptions, cocktail parties, formal dinners and summer outdoor activities, can slurp up a lot.

"Once you could go over to Chesapeake Bay, and there would be only a couple of sailboats," Beverley says. "Go down on a Sunday now, and you can practically cross the bay without getting your feet wet by stepping from one boat to another. And all those people use ice."

During its first summer, the Beverley Ice Company sold 7,000 pounds of ice weekly. Last summer, the company churned out 3 million pounds a week with sales topping the $1.3 million mark for the year.

"If we don't grow 20 percent every year, we figure we're doing something wrong," he says.

Beverley says his biggest competitor is not the ice company across town, but the refrigerator in nearly every American home. Most of the ice made in the United States is manufactured in the kitchen, and, says Beverley, "it's a lousy product."

As an ice cube forms, foreign substances in the water, such as iron and sulphur, are pushed to the center. Beverley's ice machines force a hole through each cube. Water is then flushed through the cubes, carrying away the impurities and ensuring crystal clear ice.

Although most suppliers offer this kind of hollow ice, Beverley made his mark by using the outside—as well as the inside—of the bag.

"We wanted to go from nowhere to maximum impact in the shortest amount of time," he says. "The way to do that is through aggressive packaging."

When Beverley was looking for a logo, design companies swamped him with icy themes: penguins, melting ice cubes, the word "ice" with snow on top of each letter. "Everybody has been doing that since the 1940s," says Beverley. "I wanted something contemporary and camp. I decided a flame-red package would give an exciting and warm feeling to the buyer."

So, for the predominant color of his opaque bag, he chose a bright orange-red and added a contrasting green to create a "visual pinwheel' in the buyer's retina.

Not everyone was amused. A vice president of a large supermarket chain in the Washington area told Beverley that few customers would like "hot" ice. He said the garish colors would never sell ice.

"This past year the same chain decided to go in-house with ice production," Beverley says. "The bag they came up with initially was almost identical to mine. I had to threaten them with a lawsuit before they changed it to a different shade of red."

Now Beverley is looking at gourmet ice. He is negotiating with an entrepreneur who has exclusive rights to ice from a glacier in British Columbia. Glaciers were formed before man-made pollution, so the ice is considered extraordinarily pure, he says.

A feasibility study will determine whether it is worth the time and money to ship the ice to Washington. Now the question is: What kind of bag will Beverley come up with for that?

—*Michael R. Enright*

Itty Bitty Monster Hits

With the help of a menagerie of whimsical figurines known as Stone Critters and Itty Bitty Critters, Jean and Gary Clinton have made a huge success of smallness.

Even as they toiled over a pottery wheel in a converted backyard chicken coop in 1973, the young Norman, Okla., couple envisioned a giftware business that would produce individually detailed clay items for the mass market. With $150 earned at a crafts show, the Clintons made a down payment on a used kiln while Gary was still in college.

As the part-time pottery venture began to pay off, they decided to try it full time.

United Design Corporation was founded in 1975, turning out honey pots with wooden spoons, toothbrush holders with toothy Jimmy Carter-style grins and other pottery products. The company has experienced a 35 percent to 40 percent annual sales growth from the beginning, and sales topped $6 million in 1986.

Gary Clinton pinpoints 1977 as the pivotal year. Up to then, the Clintons had not bothered to find out what their customers—the retail stores—wanted. "The turning point came when I realized we were designing things from our own points of view."

The Clintons selected six of their 75 designs for a test. They had done enough research to realize that retail outlets preferred unique products that were set off from others. United Design came up with creative gift boxes and package inserts describing how the products were manufactured or explaining that they were limited editions. The stores loved it.

"Overnight, those 6 of our 75 product designs became 90 percent of our sales," Gary Clinton says.

United Design has never had a losing year, not even in 1979 when a disastrous fire destroyed the manufacturing plant. That conflagration caused the company to take a new direction. When the source of the fire was traced to the kilns, the Clintons decided to turn to products that would not require kiln firing. They created Stone Critters, whimsical hand-painted animals made of a stone ground into a kind of plaster and then reconstituted. Public response was enthusiastic. In spite of the fire, 1979 turned out to be their best year to that point.

Gary and Jean Clinton of Norman, Okla., have molded a formidable niche for themselves in the giftware industry with their molded stone figurines, Itty Bitty Critters.

PHOTO: JIM ARGO/PICTURE GROUP

"People can't resist 'em," Gary says, explaining the success of Stone Critters, which since have been joined by Classic Critters and Itty Bitty Critters. Together, the animal figurine lines make up 80 percent of total sales.

The leading manufacturer of animal figurines in this country, United Design markets 160 styles of Stone Critters alone. In spite of cheaper foreign labor costs, the Clintons remain competitive by using innovative production techniques to keep down manufacturing costs.

The emphasis has always been on design. The Clintons invest 2 percent of gross on product development—about twice as much as their competitors.

New items and product lines are constantly being developed by six full-time artist/designers. United Design currently boasts 10 product lines, including 600 individual designs. Retail prices for the figurines range from $3 for Itty Bitty Critters to $100 and up for limited edition Legend of Santa Claus collectibles.

With over 15,000 retail store customers, including J.C. Penney and Hallmark chains, the Clintons project that the company's growth rate will continue for the next five years. To meet production demands, a $1 million expansion program is under way, including an on-site factory retail store.

Looking back at United Design's successes, and ahead to its seemingly bright future, Gary Clinton is sanguine. "My father used to say that life, at its best, is a struggle. And I think it's true that the things that are a struggle are what we learn from most."

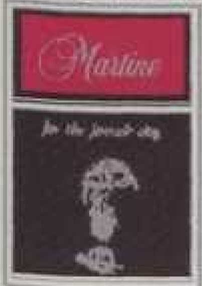
—Jerri Culpepper and Sandra Dark

Free-Spirited Enterprise

Eau De Pooch

Scentsitive canines have wagged and woofed in delight since two fit-for-a-dog fragrances entered the market last December.

"[Fragrance for dogs] really isn't a kinky thing," insists the perfumes' developer Lisa Guilford, who owns the Le Chien pet salon in New York City. "They do get a smell from being out . . . and I hate it."



Martine perfume or Christophe cologne is a perfect final touch to any well-groomed, and consequently healthy, hound's toilette routine, Guilford says.

Beware of the aroma, however. The male pooch of a pair brought in by the same owner was so bowwowed by his Martine-scented female partner that he found it impossible to keep his paws to himself. Now Guilford only douses the male when the pair come into her shop for grooming.

All Fad Up

To help "hard-core fadsters" spread their creations, Ken "Dr. Fad" Hakuta recently added a Fad-of-the-Month Club to his practice, which already includes a Fad Hotline (1-800-USA-FADS) and annual Fad Fair. "There's no sense in hoarding these ideas," he says.

Dr. Fad, the Harvard business school graduate who introduced the Wacky Wallwalker to millions of Americans in 1982, is considered a premier authority on fadology. His Washington-based company, Tradex Corporation, promotes commercially viable fads.

The "doctor" is running tests on a new type of silly putty. "It's like a cross between silly putty and slime," he says. "It slimes everything without getting anything wet."

—*Rachel Orr*

Brothers Jim (left) and John Duffy receive rave reviews for their Cinema 'N' Drafthouses, an appealing combination of good food, a comfortable atmosphere and recent film releases.

PHOTO: T. MICHAEL KEZA

Hold The Popcorn; Pass The Chablis

Gone are the days when moviegoers squeezed into tight rows of seats and chomped on sugary Jujubes and Milk Duds.

At least the Duffy brothers think so. At their Cinema 'N' Drafthouses, patrons sit at cabaret tables, sip wine and dine on pizza while enjoying their favorite stars on the big screen.

Dining and watching a film in a comfortable atmosphere is an entertainment mixture concocted 13 years ago in Orlando, Fla., by Jim Duffy, 39, and his brother John, 37.

"We got the idea when we noticed that many of the 21- to 25-year-olds around Orlando, who worked at area attractions such as Disney World, were looking for nighttime entertainment someplace other than where they worked," says John, company vice president.

He and Jim, president, were managing real estate at the time, including a shopping center with some empty space. "So we borrowed $50,000, threw in another $50,000 of our own and built a restaurant/theater in the center," says John. "Our aim was to build a theater with an atmosphere as close as possible to the customers' own living rooms."

Instead of conventional rows of seats, the theater was furnished with tables and chairs and equipped with a kitchen.

The Duffys hired tuxedo-clad servers and created a menu of sandwiches and pizza, beer and wine. They created an art deco interior and began booking popular movies—not new releases but films that had been released only a few months earlier.

The brothers made money right from the start. They opened a second Cinema 'N' Drafthouse that same year in nearby Winter Park, Fla.

And the Duffys' Cinema 'N' Drafthouses continue to earn four stars these days among young adults. (Because of minimum-age requirements to enter establishments serving alcohol, Cinema 'N' Drafthouses attract a 25- to 35-year-old group rather than the teenagers that frequent most conventional movie houses.)

Success has led to 23 locations nationwide.

Total revenues last year of the privately owned Cinema 'N' Drafthouse International, Inc., hit $15 million.

The Duffys do not consider their chain in competition with traditional, first-run movie theaters, where ticket prices average $5 each. (Admission to a Duffy theater is about $2.)

"Most of the income at a traditional theater comes from ticket sales," says Jim. "Most of ours comes from food and drink."

A traditional theater generates an average $1 extra per ticket in refreshment sales, but a Cinema 'N' Drafthouse averages $6.

"When we did a customer survey in Orlando," says Jim, "we found more than 40 percent [of our customers] came to the theater without even knowing what movie was playing. It was the food and drink that brought them in."

Typical drink prices at the chain range from $1.50 for a glass of beer to $9.50 for a bottle of wine. (Hard liquor is not a standard feature, but is served at some locations.) "For under $15, a couple can eat, drink and see a film," says Jim.

The Duffy brothers still own just two of the 23 theaters—now both in Atlanta; franchisees own the others. About half the existing theaters are renovated movie houses.

An average Cinema 'N' Drafthouse, which seats about 400, requires approximately $300,000 initial investment, say the Duffys. The franchise fee is $15,000, and 3 percent royalty on sales is paid the Duffys.

"A typical operation in a large city may do $500,000 in sales a year," John says, "with a profit of around $75,000 before debt service."

The corporation, owned entirely by the two Duffys, employs 25 at its Atlanta headquarters. Those employees train franchisees, design the restaurant/theaters and advise prospective buyers on financing and site leasing. Although franchisees choose their own movie schedules, headquarters also keeps track of each movie's attendance record and books all films.

"Our goal is 300 franchises around the country by 1990," says Jim.

Meanwhile, the Duffys are encouraging franchisees to offer their establishments for corporate seminars, small conventions, company product displays and sales meetings.

"Our theaters usually have two showings in the evening, but no matinees," says John. "So we are now renting the space during the day to companies. The weekday fee is around $500, $2,500 for a weekend." Use of film equipment is included in the price, but food and drink are extra.

Adds Jim, "A movie may gross $10,000 a week, but commercial use during weekdays could double that."

To use their space better, the Duffys plan to make all Cinema 'N' Drafthouses "fully electronic." That means installing satellite dishes and rooftop antennas to receive closed-circuit broadcasts and conduct teleconferences.

Already "some of our theaters show wide-screen broadcasts of network sports events on weekends," says Jim.

—Del Marth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MANAGING YOUR BUSINESS

Polishing Women Entrepreneurs

Training women to succeed in businesses they start is the mission of the American Woman's Economic Development Corporation.

By Sharon Nelton

Mrs. Fields Cookies founder Debra J. Fields had just concluded a rousing speech at last year's national conference of the American Woman's Economic Development Corporation (AWED) in New York. The glamorous, ultra-slim blond business celebrity displayed the unbridled exuberance of a high school cheerleader, smiling and shouting as she exhorted an audience of 3,500 women to take on the challenges of entrepreneurship.

Another founder, Beatrice A. Fitzpatrick of AWED, a large, dark-haired woman who moves and speaks with deliberation and who is Fields' senior by more than 25 years, rose to the microphone and stated the obvious: "I'm not *anything* like Debbi Fields."

After the laughter died down, she added, "But we think alike."

With the same zeal for quality that marks the way Fields turns out chocolate chip cookies, Bea Fitzpatrick develops and polishes women entrepreneurs. She has been doing so since 1977, when AWED conducted its first management training and technical assistance program with a group of 18 women.

Since then, Fitzpatrick and AWED—a nonprofit corporation—have touched the lives of 35,000 women from all 50 states and Canada with business training, counseling, conferences and seminars.

The pilot program was funded with a grant of $124,000 from the Economic Development Administration of the U.S. Department of Commerce. Now AWED operates on a $1.26 million budget of mostly private funds—including a $100,000 gift from Revlon, $55,000 from Citibank and contributions from more than 60 other companies, as well as from individuals.

Since 1983, the General Electric Foundation in Fairfield, Conn., has provided a total of $105,000 to AWED because, says the foundation's president, Paul M. Ostergard, "we have looked upon AWED as one of the groups that has taken a leadership role in pioneering start-ups by women." And start-ups, he points out, mean new jobs for other people.

The biggest enemy of women's success in business, Fitzpatrick, AWED's president and chief executive officer, has found, are the attitudes that have been instilled in them from childhood. They have been brought up believing they should serve others, not run things. Even though today's more liberated young women may aspire to be lawyers or doctors, they still don't expect to be entrepreneurs.

Women pushed into business by a need to support themselves and their families or by sheer drive are often "terrified" of the financial side of their enterprises and uncomfortable about being in charge, Fitzpatrick observes. They experience confusion about their relationships with their employees. "They think they're supposed to be mothers; the employees think they're supposed to be mothers."

She recalls one businesswoman who felt that her responsibility was to make her employees happy. Sometimes she

Turning women into successful entrepreneurs is Bea Fitzpatrick's mission. Founder of AWED, she has reached more than 35,000 women with business training and counseling. Of the 1,000 who have completed AWED's intensive 18-month course, only five have declared bankruptcy.

PHOTO: TOM SOBOLIK—BLACK STAR

When Seena Sharp of Hermosa Beach, Calif., felt her marketing research firm was not progressing quickly enough, she turned to AWED for counseling via telephone. She says AWED helped her focus and gave her "more incentive."

PHOTO: JIM MENDENHALL

didn't even go to work because she was so tired of trying to please everyone.

"It's your responsibility to have a successful business," Fitzpatrick told her firmly. "If you want to make your employees happy, be sure that you can pay them on payday and that you can grow your company so they have careers théy can look forward to."

The chief cause of small business failures is poor management, according to Fitzpatrick. To help society capitalize on the benefits that women-owned businesses can offer, she says, "you have to start providing some really good management training to make it possible for people to succeed where they might otherwise fail."

Training women to successfully manage the businesses they start is the heart of AWED's approach. Just helping a woman learn how to price her goods and services can make all the difference in what happens to her business, she adds.

Passionate about the cause she has chosen for herself—helping women up the economic ladder—Fitzpatrick is an outspoken foe of loan programs and special treatment offered by some government agencies.

Government-backed loans often are not repaid because the recipients don't know how to run a business, and their businesses fail, she observes. The government, she says, "is giving the wrong kind of help and giving it in the wrong way."

If Fitzpatrick feels comfortable criticizing government, it may be because she has a government background. In the late 1960s, she was director of parent involvement for New York City's Head Start program and director of special projects in the Mayor's Office of Education Affairs.

She was also the first executive director of the Administration and Management Research Association of New York City, Inc., a quasi-governmental nonprofit corporation established by the mayor's office in 1970. While at AMRA, she supervised studies ranging from energy conservation to economic development and began laying the groundwork for AWED.

What motivated her was seeing so many women going into business with good ideas but without business knowledge. She was influenced by the women's movement, too. "But," she says, "you can't be very liberated if you don't have any money in your pocket."

An organization like AWED, she decided, could help. "Though not every woman could be an entrepreneur, for those who could, this was one quick route to getting your hands on some really significant money," she says.

"We don't give anyone money. We just give them good information and training. Then we find banks are anxious to give them loans."

Fitzpatrick, who would like to expand AWED to Chicago, Los Angeles and Dallas over the next several years, tells women: "We'll kill ourselves to help you learn how to be competitive. When you go out in that world, you have to compete on an equal basis with men. You can't look for mercy because you're a woman. If you get into this mentality that you have to get special help because you're a woman, you're never going to learn how to run a real business."

Some of the programs AWED offers include:

- "Managing Your Own Business," an 18-month training series for women who have been in business a year or more. In once-a-month seminars, it covers such areas as business practices, accounting, marketing, selling and finance.
- "Chief Executive Roundtables," a two-year series of monthly programs for women whose businesses gross more than $1 million annually.
- "Starting Your Own Business" and "Building Your Own Business," 18-week programs for women who have just launched companies or who are thinking of starting new ones. As an alternative to the 18-week course, there's an intensive 2½-day seminar on starting a business.
- Counseling. In addition to counseling at its offices, AWED has devised a system of counseling by telephone to serve women outside New York City. Underwritten by Citicorp/Citibank, telephone sessions typically run 90 minutes, with the client paying $35. For $10, a woman may place a "hotline" call for a quick answer to an urgent business question. The calls are toll-free.
- Conferences and seminars. Best known is AWED's National Conference for Women in the Businesses of Fashion, Beauty, Fitness, Food and Home

Backed by an 18-month AWED course, Doris Colgate was ready to help when the sailing schools she and her husband own needed to grow.

PHOTO: DONNA FERRATO

Fashion, held in New York. The seventh such conference in February drew 3,700 women and featured seminars on such topics as the mechanics of starting a business, how-to's for a service business, financing your venture and how to have a baby and a business.

AWED operates through a staff of 13 and more than 400 experienced business people who volunteer their time. They include such big hitters as Donna Karan, one of New York's hottest designers, and Esther Shapiro, co-creator of "Dynasty"—keynoters at the national conference—and Katharine Graham, chairman of the Washington Post Company, and Beverly Sills, general director of the New York City Opera—speakers at an AWED management lecture series last fall. They spoke without charge and paid their own way. (Volunteer counselors receive honoraria of $5 an hour, but course instructors teach for free.)

About three years ago, Seena Sharp of Hermosa Beach, Calif., sought telephone counseling from AWED. She had started Sharp Associates, a marketing research firm, but felt it was not moving along as quickly as it should.

Though she declines to reveal her annual revenues, Sharp says her business grew as a result of the counseling she received. "It helped me focus. It gave me direction, and I think it also gave me more incentive and motivation."

The cost of the counseling was then $25, and Sharp says, "It was a steal."

Doris Colgate, a graduate of one of AWED's management training programs, is partner with her husband, Steve, in the Offshore Sailing School, Ltd., based in City Island, N.Y. She had enrolled because she wanted to help the company grow.

Colgate learned to be more discerning in the kinds of services her company bought. For example, she began demanding monthly statements from the company's accountant. "A lot of people don't request monthlies," she says, but she had learned that she and Steve could rectify problems quickly if they got statements once a month.

When a widening of the market gave their business an opportunity to grow, Colgate was ready. Offshore has expanded from the three locations it had when Colgate took the AWED course in 1978 to six sailing schools in New York, Florida and Rhode Island. It has also entered resort wear retailing, with five stores now in operation.

Sometimes AWED performs a service just by making a woman think twice before she starts a business. Carol Davis Calhoun of Kansas City, Mo., had been planning parties and weddings successfully for friends—for free. She decided it was time to turn her hobby into a consulting business, first taking advantage of AWED's telephone counseling and then flying to New York last year to attend its national conference.

While the conference gave her new self-confidence, Calhoun, who has a four-year-old son and is married to a physician, also discovered that she had some weaknesses. "I really didn't have a business plan," she says.

"I hadn't really sat down to think about what it was going to cost me or how I should be projecting expenses," she continues. "I had been planning parties for friends for so long that I didn't really price my product very well at all. It was something that I enjoyed doing so much that I didn't really think about what I was worth."

One of Bea Fitzpatrick's prize stories is that of Dianne Sullivan Morris, 42, who attended AWED's second management training group and went on to launch Miraflores Designs, Inc., producing soaps, shampoos and other amenities for the hotel industry. It grew to annual revenues of $7 million before Morris sold it last year to Guest Supply, Inc., in North Brunswick, N.J.

Last summer, Morris became one of nine benefactors in a program called "I Have a Dream." Each "adopted" an entire class of sixth graders from schools in some of New York's poorest and toughest neighborhoods. In addition to contributing upwards of $250,000 for college scholarships, tutoring programs and support, each donor agreed to become involved with the students to provide guidance until they graduate from high school—Morris meets with her class at least once a week. If the students graduate, the program pays their college tuition.

Morris bears out Fitzpatrick's faith that in addition to the jobs and other benefits that women in business create, "they also give to the community when they get in a position to be able to do that.

"When this young woman got her hands on some real money, that's what she chose to do with it," says Fitzpatrick. Morris' action, she adds, "was like a dream come true for me."

The accepted wisdom is that four out of five small businesses fail within five years. But Fitzpatrick notes that of the more than 1,000 women who have graduated from AWED's 18-month program, only five have declared bankruptcy.

Fitzpatrick places the value of the training at $3,500, with $500 coming from the woman herself, $800 from AWED and the rest in the form of volunteer help and in-kind services.

Says Fitzpatrick: "This is one of the most productive uses of money that I've ever seen in terms of economic return on investment." ■

For More Information

For additional information about AWED, write: the American Woman's Economic Development Corporation, The Lincoln Building, 60 E. 42nd Street, New York, N.Y. 10165.

Counseling Services may be arranged by calling (800) 222-AWED. In New York State, call (800) 442-AWED. In New York City, Alaska and Hawaii, call (212) 692-9100.

Enticing The Customer

By Nancy L. Croft

PHOTO: HEINZ ARCHIVE

This 1912 Heinz ad typifies the Golden Age of Illustrators.

PHOTOS: AMERICAN ADVERTISING MUSEUM

Long before Bill Cosby, Jell-o used kids to promote pudding (circa 1924).

Cream of Wheat hired prominent artists to paint its ads.

***Nation's Business* is observing its 75th anniversary in 1987 with an anniversary issue in September and special articles like this in other issues.**

"The history of American business and the social and economic changes that have shaped it are reflected in advertising," says Mick Scott, president of the American Advertising Museum in Portland, Ore.

Within the last few years, historians have taken a more respectful interest in the history of advertising, says Scott. They are seeing advertising over the years not merely as a sales promotion, but as a portrayal of American life. Ad styles are reflections of the history of business trends, good and bad economic times, social revolution and an ever-changing society of consumers.

One historian who is tracing the history of advertising compares ad trends to a yo-yo: "There's a pattern of emergence and re-emergence of hard-sell advertising [alternating with] creative, soft-sell advertising, depending on the state of the economy," says Bruce Roache, an associate professor of advertising and public relations at the University of Alabama.

The yo-yo effect, occurring in intervals of roughly 15 years, can be traced to the turn of the century. "During hard economic times, the hard sell tends to be more popular. During more affluent times, the creative style is more popular," he says.

That creativity included the work of many prominent American artists of the 20th century.

The Cream of Wheat Corporation (now owned by Nabisco) paid N.C. Wyeth $250 for a painting to be used in an ad. That Wyeth work is now worth $80,000. Norman Rockwell and James Montgomery Flagg also created magnificent pieces of advertising art.

Illustrations by those and other artists were highly popular with consumers whose reactions had not always been so positive. Consider the ad world of 75 years ago. "In 1912, the advertising business was trying to become respectable," says Arnold Grisman, a 31-year veteran of advertising and former creative director for J. Walter Thompson in New York.

Sensational and even fraudulent claims of fly-by-night salesmen had created a credibility problem for business people trying to get their messages across.

The yo-yo went the other way after the '20s. Extensive copy gave way to comic strips in many ads. "During those Depression years, people turned to the comics for entertainment," says American Advertising Museum's Scott. Advertising picked up on this technique as a way to take consumers' minds off their troubles and create a receptive mood for the ads. *Saturday Evening Post* readers, for example, were regularly entertained by the antics of Chase & Sanborn's coffee lovers, Mr. and Mrs. Goof.

The 1930s gave birth to the soap opera: Soap manufacturers like Procter & Gamble discovered an immensely effective selling tool in daytime radio programs. The decade also saw the decline and end of the Golden Age of Illustrators. "The technological advances of photography pushed advertisers on the road to realism," says Alabama Prof. Roache. Photographs were also less expensive than commissioned paintings.

"Supporting our boys overseas" was a recurring theme during the World War II years, when the supply of consumer goods to be advertised fell sharply, and many American companies were engaged in military production.

The postwar era saw the beginning of commercial television. In the early phase of television advertising, performers often delivered commercial messages during the course of programs.

Later in the '50s, however, commercial messages became more structured,

From the beginning, advertising in America has closely reflected the ups and downs of American business.

Popular TV personality Arthur Godfrey endorsed Kleenex tissue in 1953.

A repositioning coup: The Marlboro woman turned male in the mid-'50s.

Volkswagen ads of the 1960s helped spark a revolution in creative advertising.

evolving into distinct, 60-second segments. That meant less time for commercials, and advertisers wanted stronger, better targeted messages. The hard sell returned, and companies wanting to realize maximum return from their investments in television time took a much closer look at how their products were being presented.

A legendary example of the outcome of such reviews was one of the most extensive product repositionings of all time: The Marlboro woman became a man.

In 1954, Marlboro was a minor Philip Morris brand that had been on the market for many years and was purchased mostly by women. The cigarette was sold in a white package bearing the slogan "Mild as May." The cigarettes had red tips to camouflage lipstick marks. But sales were stale.

Research revealed that the name "Marlboro" was perceived as having a masculine ring. Philip Morris hired Leo Burnett, of Chicago, to give the brand a new look. The Marlboro woman became a cowboy. The cigarettes were repackaged in flip-top boxes with strong lettering. The rugged rustler with a tattooed hand featured in the new ads was a hit, and Marlboro became a major seller worldwide.

Other advertisers adopted new strategies in recognition of the social climate of the 1950s. That decade was strongly affected by the economic and social trends flowing from the end of World War II. It was an era of family formation, the explosive growth of the suburbs, the resurgence of U.S. industry and political stability under two Eisenhower administrations.

Advertising reflected the relative quiet of that period, but sea changes were just ahead. The 1960s were to bring some of the most sweeping social changes the nation had ever seen.

An early entry in what was to be a wave of nonconformism in advertising was the campaign that Bill Bernbach, of Doyle Dane (now Doyle Dane Bernbach) developed for the small, four-cylinder Volkswagen, often referred to as the "beetle" for its curved shape.

The pre-Bernbach VW had enjoyed limited success in the United States, where automotive interest at a time of 30-cents-a-gallon gasoline focused on the big, heavy vehicles that Detroit specialized in at the time. The beetle, on the other hand, was often an object of mirth because of its small size, small engine and shape. Rather than fight that image, Bernbach capitalized on it. His ads poked fun at the product, something, Scott says, advertisers had not done previously. "Volkswagen ads had a believable and credible premise," he says, "and they didn't hide the fact that it was an itty-bitty car." These ads paved the way for entertaining advertising throughout the 1960s.

In the 1970s, there was a growing recognition of market segmentation, that the advertisers' prime audience was no longer a four- or five-person nuclear family headed by a working father and homemaker mother. Advertisers turned to targeting specific consumer groups.

Consumer segmentation has continued into the 1980s, and its impact has been felt by network television. Technology, in the form of cable systems and the growth of videocassette players has given viewers more control over what they watch—and when.

Stephen Fox, author of *The Mirror Makers*, predicts that, regardless of technology, advertising will continue its pendulum swing between hard and soft sell. "The business has no memory," says Fox. "It's a business focused on the present and future, and it's very much unaware of its own past."

But Mick Scott of the advertising museum hopes this will soon change: "If a company is interested in its heritage, where it came from and where it's going, it had better preserve its advertising," he says. NB

Manage By Design, Not Reaction

By Patricia Lee Langiotti

Do you ever feel like joining the local volunteer firefighters' association just to beat the heat in your office? Or wish your business suit were made of asbestos?

Every business is plagued by problems at some time. And every business owner has felt that he or she is on the hot seat. But for most managers, the absence of a sound management plan is the major cause of combustion.

For the entrepreneur who is juggling two or three roles at a time, the heat generated by an impending crisis can become unbearable. Reactive management is often the result.

Unfortunately, gut reactions seldom produce the most logical or best solutions. An instant solution might send your profits up in flames.

Consider the Harrisburg, Pa., cabinet manufacturer who produced thousands of kitchen cabinets every month using some pre-milled parts. When filling an order for a custom job recently, he realized that he was one cabinet door short.

Unfortunately, you can't order pre-milled doors in single units. They are milled in large lots, and large lots mean long lead times. But his customer was under contract himself and wanted the cabinets. The manufacturer sent the order out anyway, one door short.

That one small door cost the manufacturer a great deal. Ninety days after he discovered the door was missing, he was sued by the buyers of the new house and by the general contractor who ordered the cabinets. (The contractor has also taken legal action against the buyers because they refuse to close the loan or authorize any payments to the contractor until the kitchen is "finished.")

Not surprisingly, the cabinet manufacturer has not been paid either, and even if he is paid, there is little likelihood of profit—he tied up equipment and personnel to produce an order that he couldn't complete. And now he also has legal fees to pay.

What went wrong here? The cabinetmaker didn't have a plan. He managed by reaction. When—too late—he realized he didn't have the door he needed, he continued with production of the order, not realizing he was headed for a disaster of major proportions.

Patricia Lee Langiotti is the president of Creative Management Concepts, a small-business consulting firm in Reading, Pa.

ILLUSTRATIONS: NICK AGNELLO

Without a solid management plan, entrepreneurs fall back on one of a host of management styles that result, at best, in poorly run operations with low profits and, at worst, in business failures. Here are some of the more disastrous possibilities:

Management By Chance. All decisions are piecemeal, and, more often than not, the pieces don't fit together.

When a business' right hand does not know what the left hand is doing, that business is probably operating by chance. More than one person doing the same task is another classic symptom. Nobody catches the duplication until it's too late.

A worse case is that an important task goes undone because everybody thought somebody else was doing it. One restaurateur, for example, had a grand fiasco on the night of a big "surf and turf" special when he discovered that the freezer held no "surf"—several people did the ordering, and no one took responsibility for seeing that all orders were filled.

Dreamer's Management. That's when you set such unrealistic goals that you know, even while you're setting them, that you will never reach them. You and your staff settle into easy-going, "who cares?" attitudes in the vain hope that problems will resolve themselves somehow.

One dreamer, a Philadelphia dry cleaning operator, promised to have a customer's formal wear ready by Saturday night, even when he knew he couldn't do it. This style of management—and the businesses run by it—are not very long-lasting.

"Philosophical" Management. This begins when an entrepreneur who thinks he's tried all the leading management techniques—and failed—gets so cynical that he laughs off his lack of organization. Or he insists that he doesn't care about making a profit because he has moved on to what he philosophically calls "a higher plane." He may say that he's only in business to leave his mark on the world, or because he feels some ethereal sense of pride about what he's doing.

So why *do* people go into business? One, they hope to make money. Two, they hope to experience some form of personal enjoyment or satisfaction.

When we are making bundles of money, we might be able to overlook the absence of enjoyment. And when we are having a wonderful time, we can survive on amazingly fewer dollars. But the ideal situation calls for a good balance of both. And that demands management by design.

Management by design anticipates problems because it knows the needs of the business. Contingency planning is built in. And most important, all the pieces fit together. Here are ways to achieve management by design:

- Define your business objectives clearly. Have you explored customer demands and carefully defined your product or service in response to those demands?

Do you have a strong, well-thought-out management strategy that serves you as well in times of crisis as it does during daily business operations?

A florist in Virginia had not. He used a slack period to make 200 plastic floral arrangements, well in advance of an upcoming holiday season. He shuffled the arrangements around to make room for other stock and dusted them for months only to learn that most of his customers preferred silk flowers to plastic that year. He should have researched customer demand before investing either his energy or his working capital.

• Examine and clarify your organizational structure. Are there overlaps in responsibilities or unclear assignments of authority? Problems occur most often when nobody knows whose job it is to do what or when it takes two or more people to make even the smallest decision. Tidy up these problems, and miracles seem to happen.

As you implement changes, be certain to balance the delegation of responsibility with a corresponding delegation of authority. You can't put somebody "in charge" when that person is not allowed to make decisions.

• Adjust your marketing approach. Spending a fortune on advertising will not guarantee marketing success. The key is spending whatever you can afford and making certain that you are saying the right thing to the largest possible number of the right people.

A California business owner, for example, developed a new athletic grip for tennis rackets. He had a unique patented production process and all sorts of good user endorsements. He wanted to make a splash on the market and decided to advertise in the major national periodicals. But he nearly drowned himself and his business because he did not realize how much money it would cost to support such a mass advertising campaign (and he was reaching a lot of non-tennis players to boot). It was only when he ran out of money that he was forced to do something more creative.

He developed an eye-catching, point-of-purchase display in sports equipment stores. While everybody else was selling racket grips from little shrink-wrapped packages hanging from pegboards, he was out-distancing them with attractive counter displays and packaging.

Don't base your marketing activities solely on what you see everybody else

doing. Explore the marketplace, and then plan an approach that considers your individual circumstances, including your financial limitations.

• Make sure you have the financial skills to manage cash flow.

Many starting entrepreneurs have limited financial-management skills compared with their levels of expertise in other areas. Often they run into cash-flow crunches: There is not enough money to buy materials to manufacture products to fill orders to ensure funds to pay the already past-due bills.

Under pressure, the untrained financial manager can panic and make some serious mistakes. Desperate to keep cash flowing, he may sell goods too cheaply, not considering that when it comes time to pay for the goods he sold, he will be in even worse shape.

So, what does the person practicing management by design do? He carefully analyzes all of the financial alternatives to make a decision that works in the long term. Recognizing that a crisis can hit anyone at any time, he leaves himself some lead time so that he can prepare for the possibility of crisis—somewhat like keeping enough distance between you and the car ahead of you on the freeway.

Planning ahead and making good long-term decisions might include seeking outside assistance. Calling on professional help only when it's time to prepare tax forms is not sufficient.

Still, all business people need some basic financial-management skills. At a minimum, you should take time to learn how to calculate your break-even sales level and how to develop a sound pricing strategy. (A community college course, books from the library or a professional adviser can help.) Then you should prepare a cash-flow management plan.

To prepare a cash-flow plan, you simply estimate planned income for any given period and deduct planned expenses for the same period. (Project income conservatively and expenses liberally.) Once you have completed this simple exercise, you will be equipped to determine the probable impact of any deviations in the plan *before* they happen. You will see what will happen if you hire another person, for example, or turn to discount pricing.

Your cash-flow plan offers an integrated view of all your earlier management assumptions—the revenues you expect, the costs you anticipate and so on. As a reflection of all the elements of your operation, the plan becomes the core of your management-by-design activities.

Even though there will still be occasional crises, a well-developed management plan will help you predict when they are coming so that you can be prepared.

You can work on the development of a comprehensive management plan at any time. Arm yourself with the information you need to operate your business so that you can make the most money *and* have the best time. Try management by design, and throw away that asbestos suit. NB

MANAGING YOUR BUSINESS

Innovators

Discouraged by the high cost and time required to publish your newsletter? Try putting your message on audiocassette.

By Sharon Nelton

A Better Way To Communicate

The folks who run the Entrepreneur Program at the University of Southern California business school in Los Angeles are redefining the newsletter. They have put it on audiocassette instead of paper—an idea that might work well as a marketing or communications tool for almost any business.

A "newstape" saves time and costs less than a traditional newsletter, according to Alan L. Carsrud, coordinator of research and graduate entrepreneur programs.

What's more, he says, cassette recipients often say, "I thought this tape was great. Here's a check."

The newstape is free, but Carsrud says the tapes have stimulated donations to the entrepreneurial program and these offset costs. "We never got that kind of response from newsletters."

The innovation grew out of frustration. Although they felt a strong need to communicate with alumni, friends of the program and colleagues in entrepreneurial programs at other colleges and universities, USC's entrepreneurship faculty members had trouble finding the time to write articles for a newsletter.

"And when you're an academic, sometimes your writing style is so dry anyway, who'd read it?" laughs Carsrud.

Trying to produce a high-quality newsletter, with photographs and a professional-looking layout, required a month's turnaround time—another discouraging factor. The faculty members had a hard time keeping up with the newsletters they received themselves, so they knew their audience was also pressed for time.

"We said, 'There's got to be a better way,'" recalls Carsrud.

They produced their first newstape last fall, sending out just 1,000 copies to see if the idea worked. The responses were so good that the second tape, mailed out in December, went to 2,200, and a third tape scheduled for September is expected to go to 3,000.

"Newstapes" save audience members valuable time, says USC's Alan Carsrud, because "they can do something else while they're listening ... like mow the lawn or drive a car."

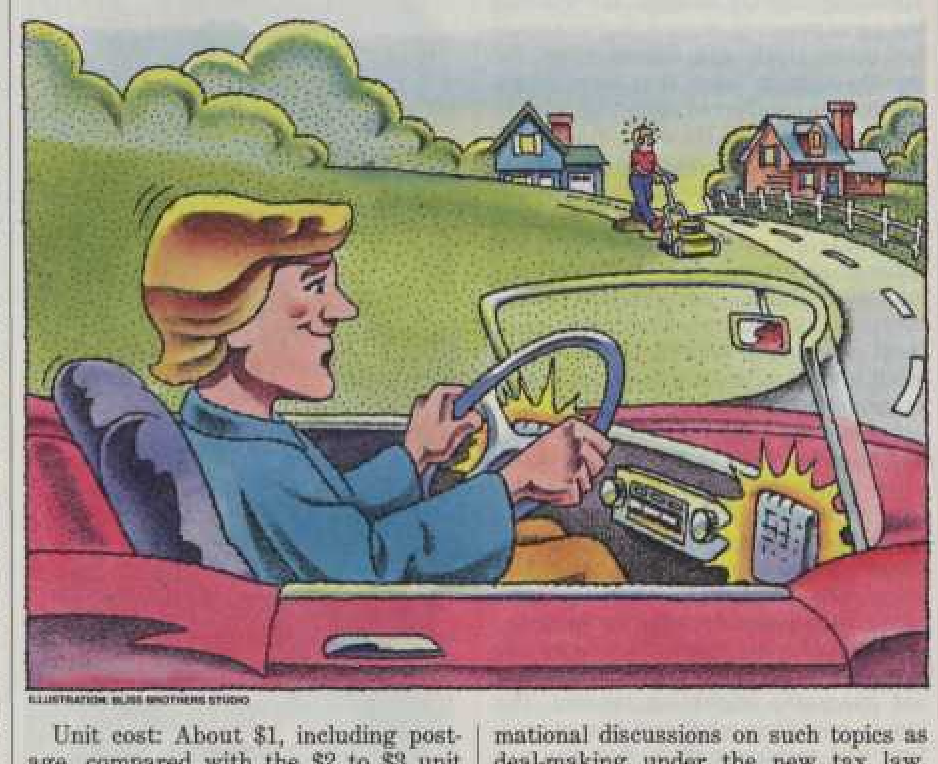

ILLUSTRATION: BLISS BROTHERS STUDIO

Unit cost: About $1, including postage, compared with the $2 to $3 unit cost of communicating through a traditional newsletter. And turnaround time was cut to two weeks.

To produce the tapes, the Entrepreneur Program's four faculty members go to a professional studio in Hollywood at 9:30 a.m. and are recorded in conversation with each other or with guest interviewees who call in. Taping is usually finished by noon. Copies are manufactured by the studio and delivered to USC for mailing.

When they were doing a printed newsletter, they were producing only one a year. When they get up to speed on the newstapes, they hope to put out one every two or three months.

The second tape, which runs 56 minutes, opens with a few bars of the Trojan fight song and a brief introduction by Richard H. Buskirk, director of the Entrepreneur Program.

Then the tape begins to take on the character of a radio talk program. There are chatty conversations about campus entrepreneurship events, news about students and alumni, and informational discussions on such topics as deal-making under the new tax law, business planning, and the meaning of service.

The Entrepreneur Program's faculty members are still learning how to make the new medium effective. While they want the tapes to be a teaching tool, Carsrud says they found they have to strike a balance between being informal and being academic and avoid getting "too preachy."

The tapes seem to be meeting the goal of saving time for their audience members. "They can do something else while they're listening to the tape, like mow the lawn or drive a car," says Carsrud.

People were skeptical about the idea at first, Carsrud notes. But he likes to tell the story about a colleague at another university who said, "Alan, I thought this was a crazy idea, and I certainly wasn't planning to listen to an hour-and-a-half of you droning on; but I got so enthralled that I kept driving around the block until I finished that side of the tape."

Says Carsrud: "They *listen* to it!" NB

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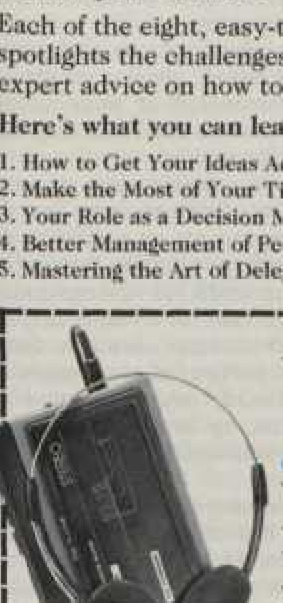

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Personal Management

For Your Tax File

Before the 1986 Tax Reform Act, your child's college scholarship would have been tax free. Now the IRS is taking a bite out of it.

By Gerald W. Padwe, C.P.A.

Suing The IRS—And Winning

It is not cheap to go to court. And the extremely high cost of litigation is one of the two major factors that taxpayers consider in deciding whether to settle a dispute with the IRS at the administrative stage or fight it out in court. The other factor is the fear of losing.

But, you say, sometimes you have no choice but to sue. An examining agent may be acting so unreasonably or irresponsibly that there is no hope of a fair administrative settlement. Or you have been caught in the toils of a computer issuing demands for a payment when, in fact, you are entitled to a refund. You might then find that you have no choice but to sue.

Recognizing that not everyone is perfect, even in government, the 1982 tax law changed the Internal Revenue Code to permit taxpayers to recover some litigation costs from the government in certain limited circumstances. Now that cases under that section are beginning to mature, we are seeing more court decisions addressing whether a taxpayer should recover such cost. Interestingly enough, the courts are upholding some taxpayer claims.

To be entitled to litigation costs, taxpayers must overcome each of three hurdles. First, they must "substantially prevail" in the litigation. Second, they must prove the government's position was "unreasonable" (before January, 1986) or "not substantially justified" (after December, 1985). Finally, all administrative remedies available within the IRS must have been exhausted before you went to litigation.

The toughest challenge facing a taxpayer taking the IRS to court is demonstrating that the service was acting unreasonably or without substantial justification. But it can be done. For example, an IRS position that is particularly aggressive, innovative or outside the bounds set by the agency's own manual on audits may be unreasonable. In one recent case, the examining agent used a new type of valuation method in determining gift tax liability for a transfer of closely held corporate stock. The court held that the valuation method did not conform to the Service's own stated procedures; its use was therefore unreasonable.

In another case, the IRS computer did not keep proper track of a taxpayer's address and sent dunning notices and threats of seizure to an old address where, not suprisingly, the taxpayer never got them. Even after the new address was entered into the computer, the collection process was continued as if the taxpayer had been on notice all along. A court ruled that was unreasonable.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File *is an information service for readers. See tax and legal advisers on specific cases.*

The IRS Goes To College—To Collect

Congratulations! Your child has just been accepted at his or her first-choice college. To make it even better, a scholarship will offset some or all of those heavy cash outlays that can make college a traumatic financial experience for parents. You are lucky parents.

Well, maybe not quite as lucky as you would have been two years ago. Before the 1986 Tax Reform Act, that scholarship probably would have been tax free.

In fact, the only part that could have been taxable would have been any payments in exchange for teaching or other services. Scholarship candidates for graduate degrees are often called upon to assume such duties.

First, any amount paid as a scholarship or fellowship grant to a student who is not a candidate for a degree is taxable to that student. But, even if the scholarship recipient is a degree candidate, the nontaxable portion of the scholarship is limited to "qualified tu-

PHOTO: JEFF ZARUBA—FOLIO

ition and related expenses." Qualified expenses include those for books, supplies and equipment.

Clearly *not* included are such items as room and board, which are, alas, a significant component of your annual cash outlay. Income from teaching and services is still taxable.

There is one possible piece of good news, however. Students who can be claimed as dependents on a parent's return and who do not itemize deductions can deduct up to $2,540, the maximum standard deduction for a single taxpayer in 1987, from their earnings. Since any taxable portion of a scholarship (room and board, say) is treated as earned income, up to $2,540 of otherwise taxable scholarship funds can still escape tax.

The picture becomes more complex if the student has other earned income. For example, if the student earns $1,000 from a summer job, only $1,540 of the standard deduction remains available to offset scholarship income.

These new rules take effect Jan. 1, 1987, but apply to scholarships or fellowships granted after Aug. 16, 1986. NB

Court fights with the IRS... taxes on college scholarships... a shaky bull market... it's all enough to give you a migraine headache.

To Your Health

By Barbara Clayman

Penetrating The Mystery Of Migraine

For millions of Americans, an extra hour of sleep on a Sunday morning or a chocolate bar in the afternoon can bring on the excruciating pain of a migraine headache.

For one sufferer, a health care consultant in Louisville, Ky., it was a vacation that triggered his first migraine.

Overworked and stressed, the consultant went from the rigors of his day-to-day life to complete and utter relaxation. Ironically, in his attempt to get away from it all, he unknowingly set himself up for a migraine headache.

"Although eight years have passed since then, I remember it like it was yesterday," he says. "The pain was so bad that I wanted to call an ambulance and be taken to the hospital." At the time, his only relief was his darkened hotel room and an ice pack on his head.

An abrupt come-down from stress is one of the many common "triggers" of migraine. Other precipitating factors can include certain foods—such as citrus fruits, smoked meats and products containing nitrates or monosodium glutamate (MSG); stress; hormonal changes; pregnancy; weather and temperature changes; and light-related influences, such as glaring artificial light or sunlight.

Different migraine sufferers are affected by different triggers. And if you are susceptible to migraine, effective treatment and prevention depend on isolating the triggers that affect you.

According to the National Institutes of Health, 10-12 million Americans suffer from migraine headaches each year. It is estimated that they lose more than 64 million workdays annually.

There is still no precise understanding of what goes on in the body during a migraine attack. However, according to Dr. Joel Saper, director of the Michigan Headache and Neurological Institute in Ann Arbor and author of *Freedom from Headaches* (Consumers Union), migraines are hereditary, and most people who suffer from them are affected by one or more triggers.

Millions of Americans suffer from migraine headaches each year. It is estimated that they lose more than 64 million workdays annually.

PHOTO: T. MICHAEL KEZA

Migraine is characterized by severe, one-sided, throbbing head pain that is thought to be related to the stretching or dilation of blood vessels. It is often accompanied by nausea, vomiting, cold hands, tremors, dizziness and sensitivity to sound and light.

There are two types of migraine. "Common" migraine accounts for approximately 80 percent of all migraine attacks and, unlike "classic" migraine, it has no distinctive phases. Sufferers of classic migraine, however, experience some type of warning or "aura" that signals the oncoming headache. Some individuals see flashing lights, zigzagging lines or areas of total darkness.

Others, such as Margaret Moos, producer of the radio hit, "A Prairie Home Companion," in St. Paul, Minn., experience tingling of the lips, face or hands, weakness of an arm or leg, slight speech abnormality, confusion and restlessness.

"There were several occasions, before my migraines were controlled, in which I would become disabled with the onset of a migraine," says Moos. "I did not know the month or the date, nor could I even verbalize a thought. The right side of my body would go numb and the pain was so severe it would sometimes take two shots of morphine to dull it."

Although there is no one cure, a great deal can be done to cut down on the frequency, severity, duration and complications of migraines. The greatest innovation in treatment is a combination of drug and non-drug approaches, says Dr. Seymour Diamond of the Diamond Headache Clinic in Chicago.

The use of beta blockers, drugs that block the effects of the body's adrenalin on certain tissues, says Diamond, "has been a great boon in the prevention of migraines.

"Non-drug treatments such as biofeedback, stress reduction, getting up at the same time every morning, dietary restrictions and avoidance in general of the known triggers have greatly enhanced the care of thousands of patients," he adds.

As Saper notes in his book, temporary relief can sometimes be obtained with several nonmedical remedies, such as:

- Applying cold compresses (moist or dry) to the head and neck.
- Applying pressure to your temples with your palms or a firm object, such as a cold washcloth that has been tightly folded.
- Retreating to a quiet, darkened room, placing your head higher than the rest of your body and trying to relax and sleep.
- Inducing vomiting, if you are nauseated. This reduces the headache in some patients, although this should be avoided if you suffer from any disorder of the digestive system.
- And crying intensely, Saper says, helps to relieve the pain for some patients.

Migraine sufferers will often go down an assembly line of specialists in pursuit of a cure. Some will go to the eye doctor, thinking it must be their

Barbara Clayman is a Minneapolis free-lance writer with a background in health care and government.

eyes. Others will go to an ear, nose and throat specialist, convinced that it must be their sinuses. And still others will go to a psychotherapist, fearing they are crazy.

Both the suffering health care consultant and Margaret Moos found that identifying and avoiding their triggers was key, and Moos has adopted a regime that involves diet, chiropractic care, meditation and exercise.

The treatment of migraine is complex and requires a multidisciplinary approach. There are several clinics around the country that offer specialized care for the migraine victim. For additional information and resources, contact the National Headache Foundation in Chicago. The toll-free number is (800) 843-2256; in Illinois, call (800) 523-8858. NB

It's Your Money

By Ray Brady

Is This The Beginning Of The End For The Bull?

If there's one thing the stock market has looked like in recent weeks, it's the struggling New York Mets. Like the Mets, who were considered a sure thing to romp easily to a baseball pennant just as they did in 1986, the Dow Jones Industrial Average was widely expected to go on a hitting streak of its own, past the 3,000 level—perhaps even to 3,500, according to some of the Dow's more enthusiastic followers on Wall Street.

Alas, it was not to be. The Mets were hit with a succession of unexpected problems. And the stock market also ran into some unexpected problems: Inflation worries reappeared on Wall Street, and rising interest rates in the bond market sent bond prices down. That move cost some of the biggest names in Wall Street a small fortune, because they had invested heavily in bonds.

Mets fans are not yet willing to throw in the towel—after all, it's a long season—but Wall Street watchers are beginning to wonder if this is it: either the end of the bull market or a slowing that could knock many more points off the Dow.

Some experts argue that it's only a slowdown, that many investors are needlessly worried about a return of inflation or a lag in the economy.

These experts note that there never has been a bull market that had as many people worried. From its very inception, investors tended to have the jitters, but the Dow still soared.

On the other hand, say the pessimists, those jitters seem justified. Con-

Ray Brady is the business correspondent for CBS News.

ILLUSTRATION: CAMERON GERLACH

sider, they say, some of the drops we've seen lately in the stock market, where 50 points or more have been chopped off the Dow in a single day. Not only that, the Dow has had the kind of rise that calls for caution. The average began this year at just 1,895.95. Since then, it soared through the 2,400 level before falling back.

So how can you tell if this is the end?

Some Wall Streeters say there are patterns that can signal when stocks are grossly overpriced and due for a fall:

- A historic high in the price/earnings ratio of the market calls for caution. Except for a brief aberration in 1983, the recent ratio of 20 is as high as it has gone.
- A historic low on the dividend yields of stocks could mean investors will soon be looking elsewhere for places to put their money. Recently the yield dropped to 2.9 percent—the lowest ever.
- If the price of a stock is selling at a high ratio to the book value—a condition we have been seeing in a growing number of stocks—that, too, can be a sign of danger ahead.

One way or another, say the pessimists, the market has been flirting around all those danger signals. "Nobody really knows when you've hit the top in a market," comments one money manager, who wishes to remain anonymous. "If you could tell that, we'd all be rich."

Some other financial types say that this market will not come to an end until we see one of Wall Street's "blow-offs," when trading volume soars and investors seem to tumble all over each other to get in on what appears to be another major leap in a bull market but could actually be a final surge. In late January, the volume of trading on the New York Stock Exchange boomed to more than 300 million shares for a single day—a record. On other days, volume topped 200 million shares—not a record, but very, very active days.

Under this theory, the end may be signaled by three days or so in which the volume of trading soars past 300 million shares. Some of that could come from Wall Street buying programs in stock index futures, as the computers set off a wave of purchases at a time when negative economic factors are building up pressures that will soon drive the market down. The computer-generated purchases could, in turn, make human investors think the market is going to climb still higher and get them scrambling to buy stocks.

(If this seems like simplistic reasoning, market blow-offs in the past have brought in huge numbers of investors scared of missing out on a good thing but actually arriving just in time to hear the final whistle blow on a bull market.)

So what's the average investor to do? One top investment strategist suggests taking a look at zero coupon bonds. With a zero coupon bond, you get no current income—hence the name. If you're investing for, say, 10 years from now, it is possible to find zero Treasury bonds that will return you the equivalent of 10 percent a year when the time comes to sell them.

That's a double-digit yield over the life of the bond. That's not bad at a time when even the shrewdest people on Wall Street are looking nervously over their shoulders. NB

THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Retaliate Against Unfair Trade?

Congress is poised to pass trade legislation that would require retaliation against countries that violate trade agreements with the United States. Some free trade advocates oppose any laws that restrict U.S. trade with other countries, arguing that such laws are costly and inefficient. Leading business groups support mandatory retaliation, including tariffs or quotas, in instances where trade agreements with the U.S. have been violated. They maintain that trading partners should keep their word once mutually beneficial agreements have been negotiated. Should the U.S. retaliate against countries that break trade agreements?

2. Ban Employer Use of Polygraphs?

The House is considering a bill, cosponsored by 140 members, to ban the use of polygraphs (lie detectors) or the results of polygraph tests in the workplace. Proponents maintain that the tests are inaccurate and that their use infringes upon the privacy and civil liberties of those examined. Business opponents of the measure argue that the polygraph can be an essential tool for pre-employment screening, an important aid in investigating workplace incidents and an effective deterrent to workplace theft and crime. Opponents of the ban support state licensing and regulation of polygraph examiners. Should Congress prohibit the use of polygraphs in the workplace?

3. Mandate Catastrophic Health Insurance?

A bill now before the House would require employers who already offer medical insurance coverage to provide a prescribed amount of catastrophic illness protection for workers and their families or lose the deductibility of the firm's health care expenses. Proponents say the bill is needed to protect "underinsured" employees from financial ruin. Opponents maintain that 91 percent of employees covered by company health plans already have expense limit protection. Moreover, a federal mandate would add another layer of burden to employee benefit costs. Should Congress require catastrophic illness protection for workers and their families?

Verdicts On May Poll

Here is how readers responded to the questions in the May issue's Where I Stand poll.

	Yes	No	Undecided
Should Congress pass legislation restricting plant closings and layoffs?	15%	81%	4%
Should Congress raise the gasoline excise tax to help balance the budget?	24%	72%	4%
Should Congress impose a tax on imported oil?	36%	53%	11%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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Another Tax Blow?

We hear more talk from Congress about increasing taxes again. The supposed tax "reform" law just raised business taxes $120 billion over five years. Are we business people likely to get socked again?
F.B., Omaha

The House has passed a budget resolution calling for $18.5 billion of new revenues, and the Senate-approved resolution calls for an increase of $19.6 billion. While negotiators are working to reconcile those figures, neither plan specifies just where the higher tax revenues would come from. That would be determined later by the tax-writing committees of the two houses.

There's no certainty that business would be the target of new taxes, but it's certainly politically easier to tax businesses than individuals. Sen. Lloyd Bentsen (D-Tex.), chairman of the Senate Finance Committee, recently told journalists in Washington that "nothing will really be off limits. We'll even be looking at rates."

Under tax reform, the top individual rate drops from 50 percent to 28 percent; the top corporate rate from 46 percent to 34 percent.

If tax-increase plans go through, candidates for increases would include excise taxes on such things as gasoline, cigarettes and distilled spirits. Lawmakers also are apt to extend the 3 percent telephone excise tax scheduled to expire at year-end.

While you should be concerned about higher taxes, remember that President Reagan has vowed time and again to veto any major tax bill.

Patently Rude

How can I obtain information on getting a small invention patented? I contacted the Patent Office twice but have received no response.
D.N., Amarillo, Tex.

Call the office of William O. Craig, director of public affairs, at (202) 557-3341 for help—and maybe even an apology.

However, if you're serious about embarking on the patent process, which can consume three or more years, you should call a local patent attorney.

ILLUSTRATION: WILLIAM COULTER

There's much more to gaining a patent than completing government forms. It's difficult for business people not familiar with the patent process to conduct required research and do necessary drawings.

Video To Go

I am interested in opening a videotape sales/rental business. Any ideas?
H.W., Belle, Mo.

The *1987 Franchise Annual* and the *Franchise Opportunities Handbook* list a large number of video franchisors. For the former publication, write Franchise News, Inc., 728 Center St., P.O. Box 550, Lewiston, N.Y. 14092; for the latter, write the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

A word of caution: The large number of firms offering these franchises is just one indication of the intense competition in this industry. Carefully evaluate the videotape supply-and-demand situation in your area before you proceed. For an overview of the videocassette franchising industry, see "Franchising," *Nation's Business*, April, 1986, page 42.

Government Contracting

I own a machine shop and would like to begin competing for government contracts. Where can I learn about contracting opportunities?
D.S., Cleveland

There are many ways to get your feet wet. For military contracts, talk first to the Small and Disadvantaged Business Utilization Officer at the nearest military base, who will provide you with necessary information. The book *Selling to the Military* is available from the Department of Defense, Washington, D.C. 20301. It provides general information, items purchased and locations of military purchasing offices. If you decide to compete for nonmilitary contracts, obtain the *U.S. Purchasing and Sales Directory* from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Ask for stock number 045-000-00153-9.

A Weighty Explanation

I've prepared my own business and personal tax returns for years, but several sections of the new tax law have left me scratching my head. The commercial synopses aren't detailed enough to answer my questions, and I prefer not to pay a tax adviser. Are any complete analyses of the statute available?
D.W.G., Port Chester, N.Y.

The congressional Joint Committee on Taxation offers *General Explanation of the Tax Reform Act of 1986*, but its sheer size could be intimidating. This magnum opus weighs 2 pounds, 10.5 ounces and runs 1,379 pages. It is available from the Superintendent of Documents (address above).

A "privatized" edition of the joint committee's explanation weighs one pound less and is available from Commerce Clearing House, 4025 W. Peterson Ave., Chicago, Ill. 60646.

You may find that the act's complexity makes many provisions incomprehensible to nonexperts, and you may have second thoughts about seeking professional assistance. NB

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

LESSONS OF LEADERSHIP

Cutting Out The Guesswork

Charles Morgan's computers are helping direct marketers to improve their rate of return.

By Michael Barrier

In the spring of 1975, a 32-year-old Arkansas businessman named Charles D. Morgan, Jr., was in New York, trying to find some way to keep a little data processing firm called Demographics alive. Demographics had lost some major accounts, and Morgan, its executive vice president, was trying, out of "desperation, fear of bankruptcy," to drum up business—any kind of business—among the companies that own and manage mailing lists.

His third or fourth call took him to a large list company, Direct Media, which at the time "was in the process of trying to build a mailing list property," Morgan recalls. "I have never seen such chaos in all my life. They had list orders stacked all over the place; people were screaming at each other. It was one of those flashes, when you say, 'What a marvelous opportunity for the application of modern-day processing technology.'

"I met with one of the senior guys at Direct Media," Morgan continues, "and I told him, 'I'll send a jet plane to pick you up and fly you down to Arkansas and show you how we're going to do this.' He agreed to come, and we went back and worked two 90-hour weeks putting together a proposal and a simulation."

When the Direct Media executive came to Demographics' Conway, Ark., offices, Morgan showed him a simulation in which a computer at Conway communicated with a terminal at a Pine Bluff, Ark., hardware company. The Conway computer asked questions about a mailing list that was supposedly stored in the Pine Bluff computer—how many people lived in a certain ZIP code, for instance, or how many fell in a certain age group—and got simulated answers.

Direct Media signed up, and Morgan and his colleagues "did two years' worth of software in six months," Morgan says, before entering the list business in 1976.

As a direct result of Morgan's "flash," Demographics has become CCX Network, Inc., whose mainframe computers at Conway are a storehouse for about 20,000 mailing lists holding more than 1.2 billion names and addresses, and Morgan himself has become the company's chairman and chief executive officer. CCX will generate about 2.5 billion mailing labels this year, roughly 5 percent of the third-class total.

Since Charles D. Morgan, Jr. (standing), led CCX Network, Inc., into the direct mail business in 1976, its computers have come to hold 20,000 lists made up of 1.2 billion names. CCX will generate 2.5 billion mailing labels this year.

PHOTOS: T. MICHAEL KEZA

Most Americans will speed a lot of that mail straight to the wastebasket. But if Morgan gets his way, eventually most people will receive less third-class mail—and they won't even be tempted to dismiss those envelopes and catalogs and brochures as "junk mail."

Nobody slings that epithet at mail they *want* to receive. A catalog for, say, mail-order cowboy boots may be "junk mail" to a Manhattan lawyer, but the catalog's arrival may be the high point of a Montana rancher's day. The mailer's challenge thus is to transform "junk mail" into welcome communications, by targeting sales pitches much more precisely.

That challenge is formidable. Direct marketing—advertising sent directly to the potential customer, usually through the mail, as opposed to advertising aimed at a broad audience through print or broadcast media—has for years lived with what John Stevenson, a New York consultant, calls "a truly huge overload of error." When a typical direct marketer rents a mailing list, it can expect a response rate to its mailing of no better than 2 percent. As Stevenson says, "the typical direct marketing mission is 98 percent wrong."

Charles Morgan is the direct marketer's strongest ally in the effort to improve that response rate. Through CCX's increasingly sophisticated technology, he has been building on the idea embodied in his 1975 simulation: give list owners and users more information about the names on their mailing lists, so that they can use those lists more efficiently to reach potential customers.

Around 120 CCX clients across the country are now linked to the Conway mainframes by dedicated phone lines, in what CCX calls the Direct Marketing Network.

Some of those clients—including such major corporations as Xerox, Citicorp and MCI Communications—are primarily users of lists; others are list owners, managers and brokers. (CCX, which calls itself "the direct marketing

Cutting Out The Guesswork

utility," owns none of the lists it stores.)

List owners can order CCX to "enhance" their lists—verifying and correcting ZIP codes, appending job titles and function codes to business lists, adding demographic data to consumer lists, and generally fattening each list entry with useful information. By entering a request at its terminal, a client can learn how its enhanced list breaks down by age, income, family size, type of business or any number of other variables.

With such a customer profile in hand, a magazine publisher, say, or perhaps a broker representing it, can get counts in a few hours for other enhanced lists in CCX's computers. If a mailer finds several lists that meet its requirements, and if the list owners approve—approval is automatic in many cases—the lists can be combined in a single new list, with duplicates removed.

Assuming that the mailer has defined its target audience correctly, its advertising will go only to the people who are most likely to be receptive. Fewer pieces of third-class mail will go out; more orders will come in.

Morgan's innovations are paying off in profits. For the fiscal year that ended Sept. 30, 1986, CCX reported record earnings of $1.8 million on revenues of $19.3 million, a 51 percent increase in profits over fiscal 1985. Last year CCX began a $4 million expansion of its Conway facilities, adding 72,000 square feet in four new buildings; completion is scheduled early this summer. Employment is up to about 350, from 250 a year ago.

In the last year or so, CCX has shifted emphasis somewhat, toward a greater concern with marketing—it has set up a new division whose "sole responsibility," President R.P. Carter says, is "customer satisfaction." But it remains a technology-driven company; it could hardly be otherwise, given Morgan's passion for machines.

When he was a boy in Fort Smith, Ark., his mother Betty Morgan told *Arkansas Business*, "he had no pleasure in his playthings until he could take them apart and see how they worked. He was my despair." Morgan himself has said that he was "one of those kids who nobody wanted over at their house because I was always taking apart my friends' toys."

He went to work for International Business Machines Corporation in 1966, after graduating from the University of Arkansas with a degree in mechanical engineering. He spent six years in IBM offices in Arkansas and then was due for a promotion and a transfer to New Orleans. But first IBM sent him to a management development course.

Morgan confers with Edward Wright (center), CCX's chief financial officer, and R.P. Carter, its president. Carter, like Morgan and several other top officers, came to CCX from IBM.

"One of the suggestions in that course was that you spend a full day doing your career planning," Morgan recalls. "I did, and I decided I should leave the company. My assessment of myself was that I would do better in an entrepreneurial environment."

The "entrepreneurial environment" he chose was Demographics (the name was changed to Conway Communications Exchange in 1969 and to CCX Network in 1983, when the company went public). C. Alex Dietz, an old friend of Morgan's from IBM—"We raced motorcycles together," Morgan recalls—was a vice president of Demographics, and Morgan accepted Dietz's offer to join the company in 1972, also as a vice president. Working for a company like Demographics was "almost not an honorable profession back in those days," Morgan says. IBM resented the competition from such firms, he explains, "but I felt there was long-term opportunity in the business."

When Morgan joined Demographics, it was the data processing arm of a large bus manufacturer in Conway, and almost all of its work was for that company. Dietz had developed some new accounts, but when those started to dry up, Morgan started hunting for "some kind of specialty" and hit on the idea of servicing the list industry. That led to his trip to New York.

(Morgan has been CEO since 1976. In 1978, he and several other executives bought a controlling interest in the company. Even though CCX is now public, Morgan still owns or controls approximately half of its shares.)

Morgan made a calculated decision to go after big accounts first, and he got them: For a while, three big list companies accounted for more than half of CCX's revenues. The big lists drew other big lists, and many smaller lists, too, so that now, says Edward M. Wright, CCX's chief financial officer, the company's computers "encompass most of the lists that are out there." The big lists, and their accessibility through the network, have in turn attracted big list users like Xerox, Citicorp—and IBM.

Soon, Morgan predicts, almost any small firm will be able to hook up with CCX's Direct Marketing Network, using the personal computers it already has in its offices. He warns, though, that even the most sophisticated technology can take the small mailer only so far. "The real pitfall in five years will be the same one we have today: Do you understand how to use the medium most effectively? I'm not sure that a computer terminal can teach you all of that."

The successful direct mailer not only sends envelopes to the right people—it sends them envelopes they want to open. Charles Morgan's computers can find the right people, but so far no computer can design the right envelope. That is the frontier where direct marketing passes from science to art. NB

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Budget Reform	If federal spending growth is not curtailed significantly, economic growth could be imperiled. Congress soon will confront the need to legislate another increase in the nation's debt ceiling, which is now $2.3 trillion, and this procedure provides an opportunity for antispending budget reforms.	Members of the House and Senate: The automatic budget-reduction provision of the Gramm-Rudman-Hollings balanced budget law would be restored under an amendment that will be offered to a bill to increase the debt ceiling. Support this amendment to cut the growth of government spending.
Health Care Coverage	Congress is considering proposals to require all employers—large and small—to provide and pay for health care coverage for employees. Such mandated coverage would increase employers' costs and impose administrative burdens. It could even force some employers out of business.	Members of the House and Senate: Oppose mandated health care coverage, which many businesses cannot afford. The voluntary, private-sector employee benefits system works well for employees and employers alike by allowing employees to choose benefits that they prefer and employers to provide those that they can afford.
Occupational Hazard Notification	Businesses handling any hazardous substance would face increased health, safety, insurance and litigation costs if a law is enacted to create a massive, duplicative bureaucracy to administer a program to identify occupational hazards and notify and counsel workers regarding their medical conditions and legal rights. An expensive federal program already addresses worker notification.	Members of the House and Senate: Oppose occupational hazard notification legislation (H.R.162/S.79) being considered by Congress. Do not add to the excessive regulation, litigation and employer expenses that result from current federal requirements. Do not create another unneeded bureaucracy. Oppose such moves, which could be a step toward federally mandated health benefits and federalized workers' compensation.
Davis-Bacon Act	The Davis-Bacon Act, adopted in 1931, requires contractors for federally funded construction projects costing $2,000 or more to pay employees a government-directed "prevailing wage." Since many small businesses cannot match that wage level, they are prevented from bidding on such projects.	Members of the House and Senate: Support legislation that would substantially raise the dollar threshold for application of the Davis-Bacon Act. Such a change to this outdated and unnecessary law would allow more small businesses to bid on federal construction projects.
Outer Continental Shelf Oil And Gas	Businesses need reliable sources of energy. Continued, orderly development of America's offshore resources, with appropriate environmental safeguards, is vitally important to the nation's economic security.	Members of the House and Senate: Support orderly development, with appropriate environmental safeguards, of the nation's offshore oil and gas resources. This can best be achieved through the five-year leasing program of the Department of the Interior.
Comparable Worth	Legislation before Congress would require a "comparable worth" study of the federal work force, which could be the first step in subjecting business to a pay system based on an arbitrary evaluation of the worth of a job. Outside evaluators would determine the "intrinsic" value of different jobs and set wages.	Members of the House and Senate: Oppose efforts to impose a "comparable worth" pay system on workers and employers. Inconsistent and arbitrary judgments of outside evaluators must not be substituted for the marketplace or allowed to counteract advances in merit pay and promotion systems.

COMMENTARY

Editorials

"Moving to a biennial budget would give [special interests] just one shot at the budget every other year."

One Budget Reform Step That Would Pay A Double Dividend

A $9.4 billion supplemental appropriation bill for the fiscal year ending September 30 is stalled in the Senate. Opponents say it would violate spending limits previously set by Congress. The largest single item in the bill is $6.7 billion for the farm-subsidy program, which ran out of money May 1. A fiscal crisis that could have forced the U.S. government to default was narrowly averted when Congress agreed to increase the federal debt ceiling to $2.3 trillion. The extension runs only to July 17, however, when the battle between Congress and the White House will have to be refought.

Action on the budget for the 1987-88 fiscal year beginning October 1 has stalled in a dispute over the extent of the White House role. The Democratic majorities in both houses favor tax increases to cut the deficit and want President Reagan to get behind that idea. He has agreed to discuss ways to reform the budget process but refuses to be drawn into compromise talks in which his tax position would be negotiable.

And all that turmoil is just part of the current picture on fiscal policy. That turmoil gets worse each year. Congressional inability to adopt an annual federal budget in an orderly fashion has grown in direct proportion to the size and complexity of federal spending programs.

Consider this perspective: Of all the money the federal government has spent in its 198 years of existence, nearly two thirds has been disbursed in the last 10 years alone, nearly 85 percent in the last 20 years. Congress has simply been unable to keep up with such acceleration. While it has made various attempts to establish effective machinery for an orderly budget process, the legislature has yet to get a handle on the problem.

Because of the continuing threat of a collapse of the budget process, lawmakers are once again thinking in terms of procedural changes. One that should be given strong consideration is the adoption of a two-year budget process. Proponents of this change say it would have two principal advantages. It would enable Congress to approach fiscal-policy decisions with deliberation, as opposed to the present situation in which Congress is constantly engaged in hectic maneuvering over spending decisions, with one year's budget demanding attention even before the previous year's has been resolved.

ILLUSTRATION: WILLIAM COULTER

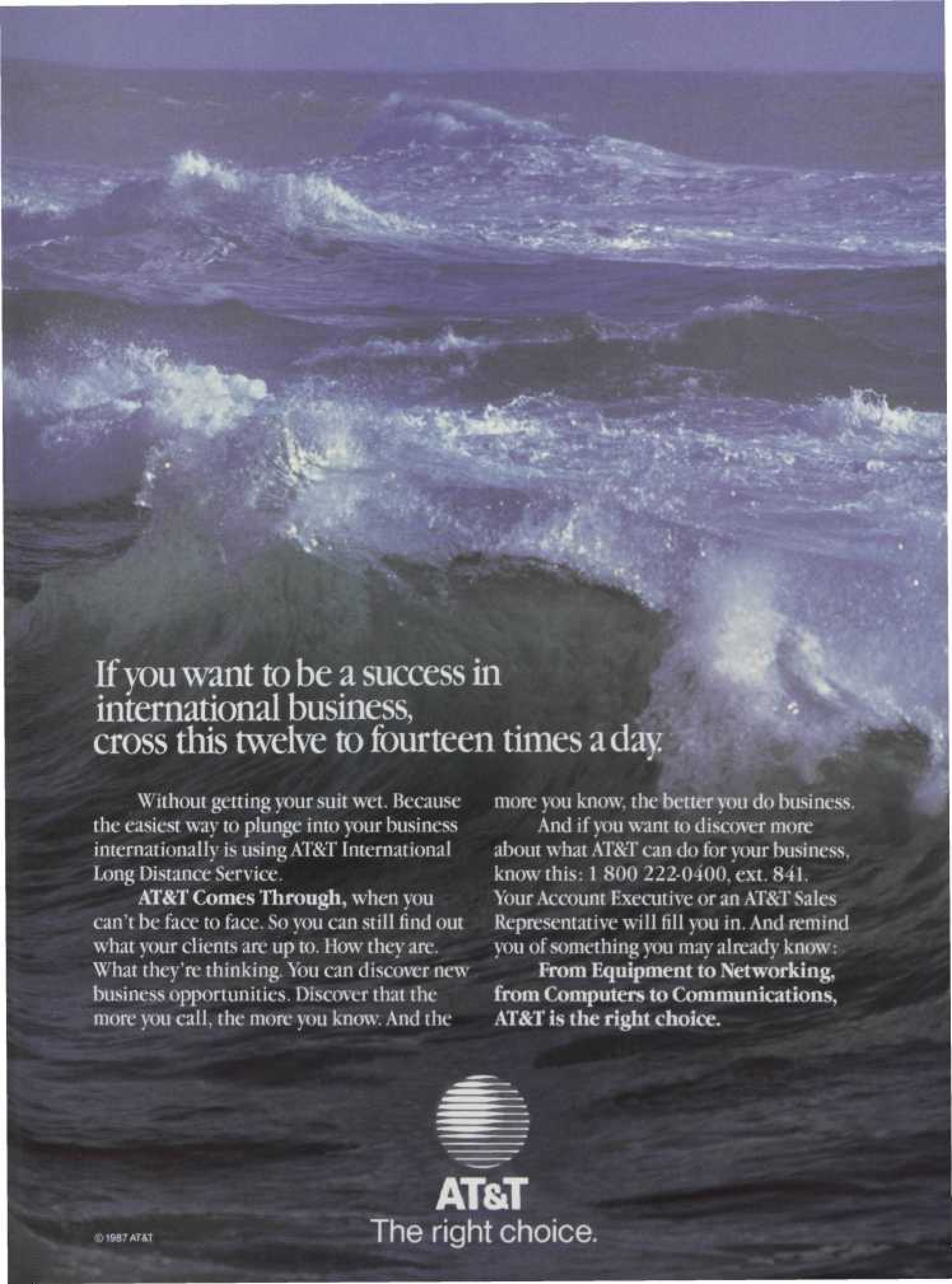
Secondly, a two-year budget cycle could help ease pressures for higher spending by shortening substantially the amount of time in which pressure groups seeking ever-higher spending for their causes can bring their influence to bear.

The experience of the states that use the two-year cycle is promising. The General Accounting Office recently studied the 21 states that now have biennial budgets (the number is down from 44 in 1940). The GAO concluded that biennial budgeting does not require the state government's full-time attention for budget review every year. More time is available for nonbudget activities in both the legislative and executive branches. In addition, biennial budgeting lends itself to a more planned and deliberate approach to developing the budget, including the budget preparation process, analysis of policy issues and review of major budget proposals.

In an analysis of the two-year budget proposal, Ronald D. Utt, deputy chief economist of the U.S. Chamber of Commerce, says:

"Much government spending is driven by aggressive special interests attempting to get as much as possible as often as possible for the constituent groups they represent. . . . Moving to a biennial budget would give these groups just one shot at the budget every other year, instead of the existing opportunities for annual assaults on the taxpayers. Diminishing the pro-spending pressures may lead to more fiscally responsible budgets in the future."

The current fiscal chaos makes it painfully obvious that Congress must make yet another effort to develop an effective budget procedure. The two-year budget cycle should be high on the list of changes to be considered. NB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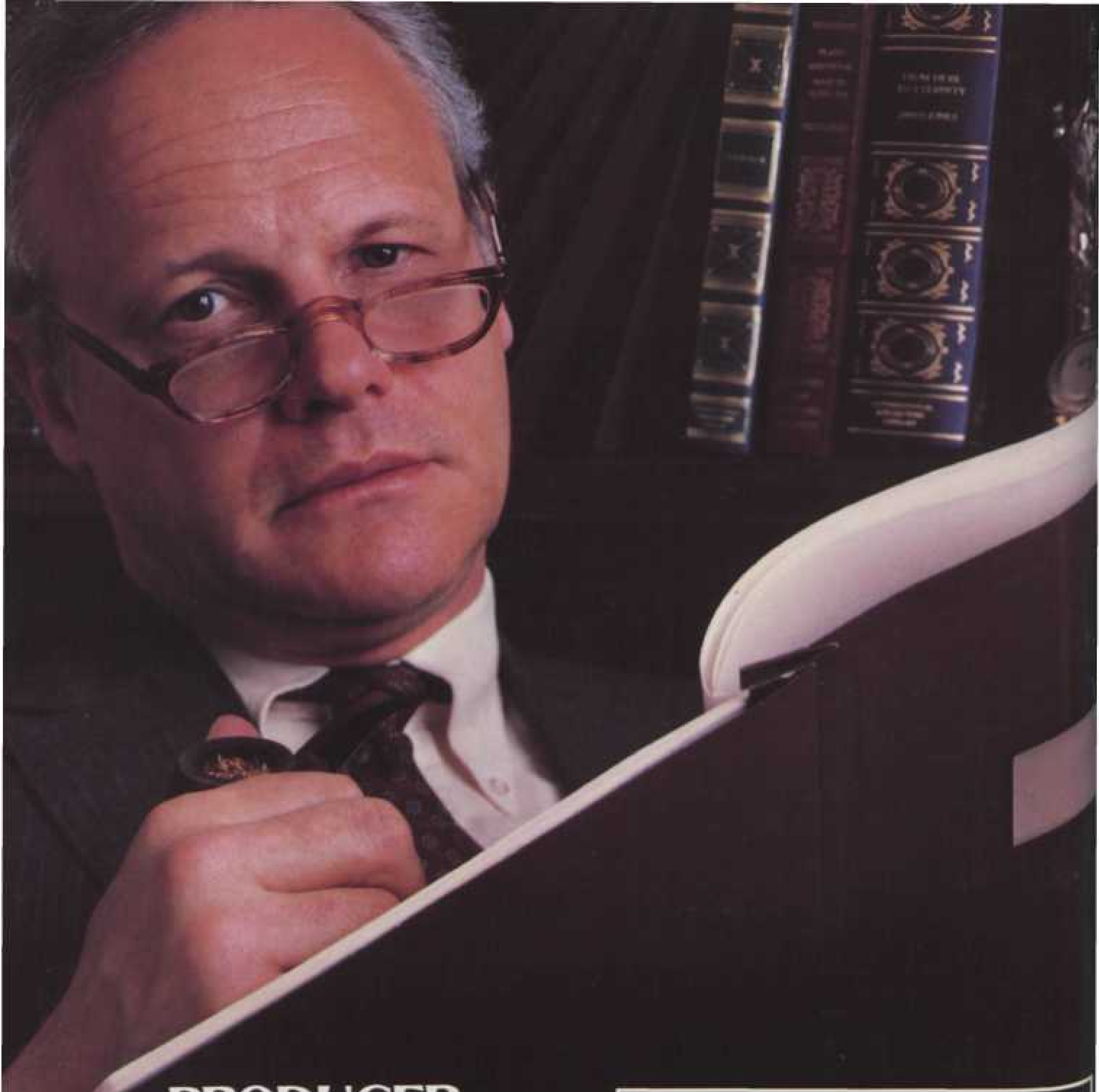

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